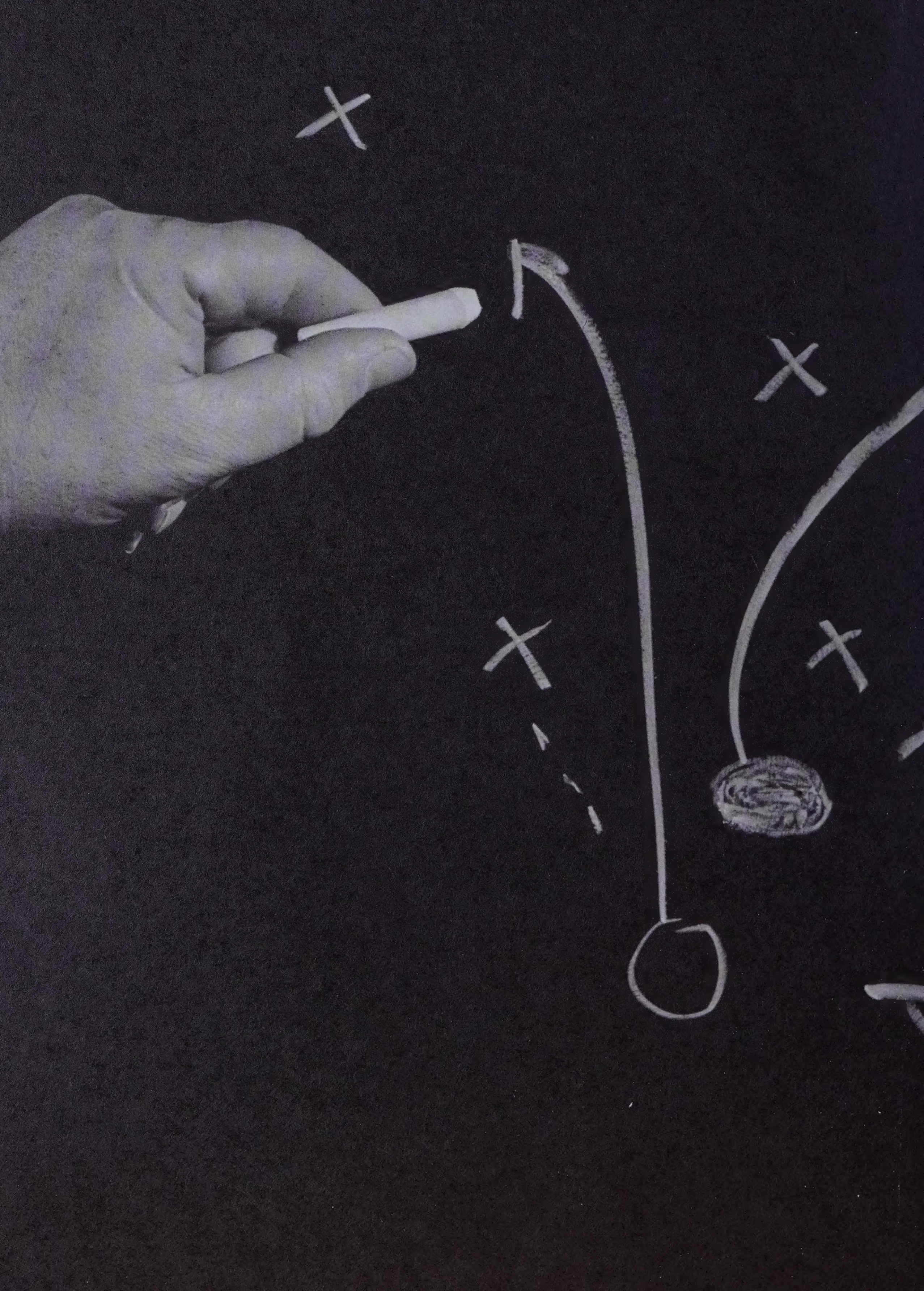
Let's talk about positioning

2003 ANNUAL REPORT

ABITIBI CONSOLIDATED

Abitibi-Consolidated Inc. 2003 Annual Report



The best positioning

At Abitibi-Consolidated, we think that positioning requires thought and strategy, to go beyond the easy choices or obvious assumptions. That's why we're always thinking about where we want to be, where we *should* be, to get the best possible results and achieve our goals, not just in the "here and now", but in the medium and long term as well.

It's all about knowing when to charge ahead and when to pull back. It means constantly surveying the field, covering all your bases, and always thinking a couple of moves ahead.

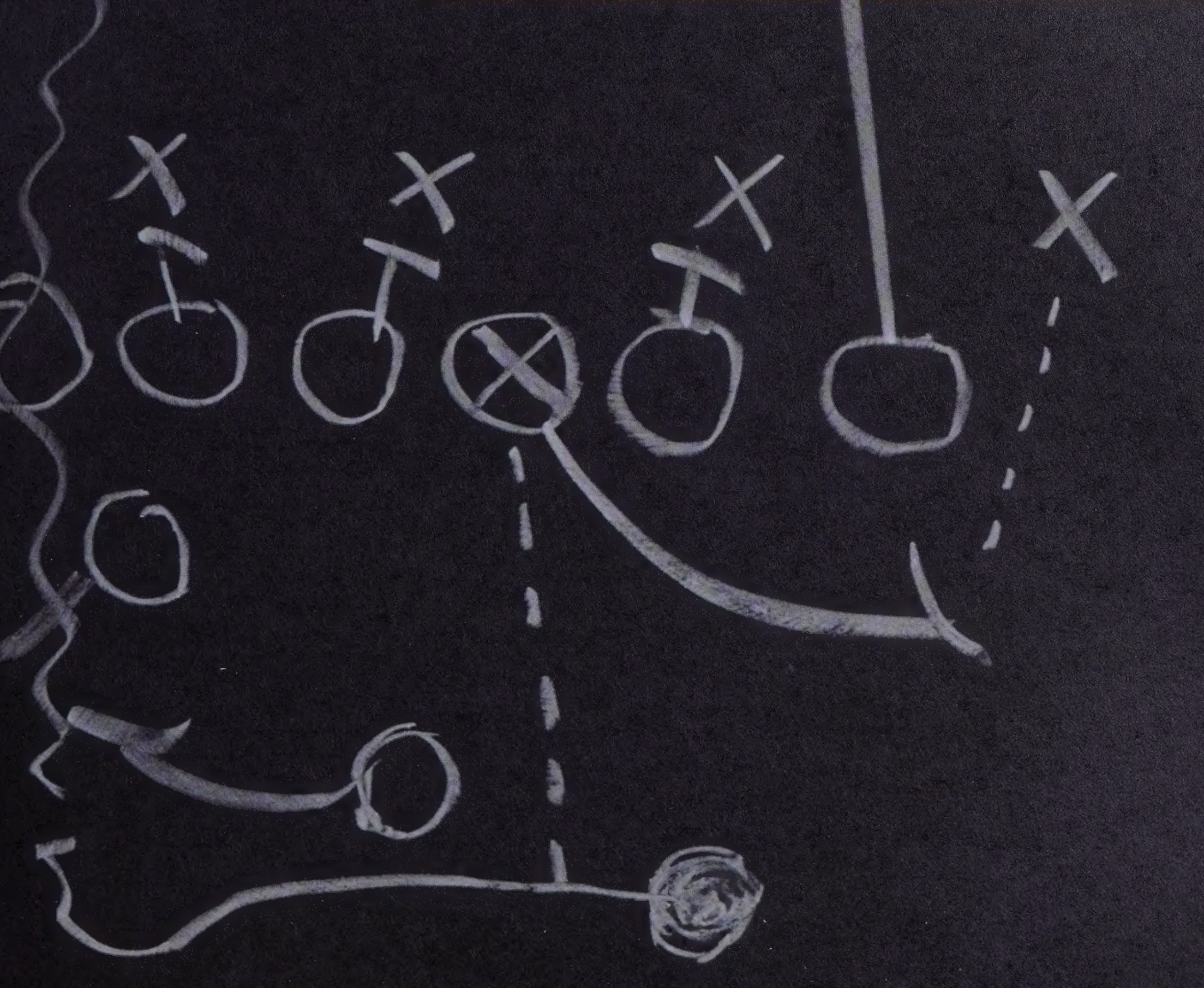


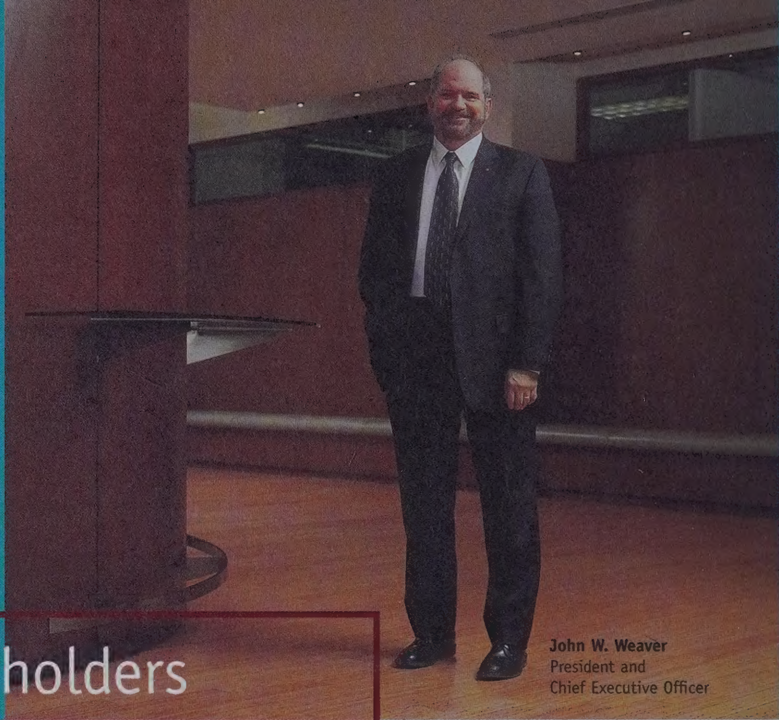
Table of Contents

Financial Highlights

Years ended December 31
(in millions of Canadian dollars, except as noted)

	2003	2002	2001
	$	$	$
Financial summary			
Net sales	**4,786**	5,122	5,811
Operating profit (loss) from continuing operations	**(322)**	182	965
Net earnings	**179**	259	106
Cash flows from continuing operating activities	**61**	243	990
Additions to property, plant and equipment	**262**	214	459
Per common share			
Net earnings (basic and diluted)	**0.41**	0.59	0.24
Book value	**6.52**	7.01	6.75
Dividend declared	**0.175**	0.400	0.400
Financial ratios			
Net debt to total capitalization	**0.618**	0.635	0.658
Return on shareholders' equity	**6.0%**	8.6%	3.6%
Operating profit (loss) from continuing operations to net sales	**(6.7%)**	3.6%	16.6%
Shares outstanding (in millions)			
Weighted average and at year-end	**440**	440	440
Shipments			
Newsprint (1)	**4,611**	4,624	4,456
Value-added groundwood papers (1)	**1,810**	1,770	1,761
Wood products (2)	**1,930**	1,759	1,704

(1) in thousands of tonnes
(2) in millions of board feet



John W. Weaver
President and
Chief Executive Officer

Letter to Shareholders

BUILDING ON OUR INDUSTRY-LEADING POSITION

During a difficult 2003, we concentrated on three strategic priorities: cash, productivity and world-class customer service. Our approach continued to build on Abitibi-Consolidated's industry-leading position.

Again last year, the Company solidified its position as the low-cost producer. According to an independent third-party study, Abitibi-Consolidated operates 12 out of the 17 lowest cost newsprint mills in North America. The Company also achieved the highest EBITDA margin among its newsprint-producing peers in 2003 while, once again, registering the lowest SG&A costs in the industry.

Although we outperformed the competition, 2003 was clearly a tough year. Revenues were impacted by a number of factors. For one, the U.S. economy remained sluggish through the second half of the year, keeping North American newsprint demand flat. Moreover, price increases over the course of 2003 were more than offset by the rapid rise of the Canadian dollar. Revenues were further affected by countervailing and anti-dumping duties on softwood lumber that added up to $77 million over the course of the year.
For 2003, the Company reported an operating loss from continuing operations of $322 million on sales of $4.8 billion. As we go forward, rest assured that renewed profitability is our first priority.

BEST MOVES, BEST POSITION

Over the course of 2003, the Company acted to better position itself. We decreased manufacturing costs and responded to our overcapacity by further focusing downtime and idling high-cost mills. We took a financially disciplined approach to preserving our liquidity. And, we increased prices for newsprint, improved productivity, expanded in growth markets and invested in higher margin products.

FOCUS ON CASH

Last year's focus on cash was aimed at enhancing revenues while curbing costs and expenditures.

To improve revenues, Abitibi-Consolidated initiated two newsprint price increases in North America, which resulted in year-end 2003 market prices that were approximately 10% greater than those at the end of 2002.

On the other side of the ledger, we implemented a series of measures designed to reduce costs, improve cash flow and enhance the Company's financial flexibility.


Richard Drouin
Chairman of the Board

Capital spending was curbed and we were able to substantially decrease the amount of working capital employed. By enlisting the support of employees at every level of the organization, we reduced material usage and trimmed inventory levels to near record-lows.

Given last year's market conditions, we made the tough decision of reducing the dividend, preserving $132 million on an annualized basis.

In 2003, we also took advantage of historically low interest rates to realize a bond offering of US$500 million and smooth out the maturity schedule of our long-term debt. This action provided for enhanced liquidity.

FOCUS ON PRODUCTIVITY

On the productivity front, we indefinitely idled high-cost capacity, while continuing with the rollout of the Operating System to optimize the performance of on-going operations.

The focused downtime at our Sheldon, Texas mill reduced our cost structure by $50 million in 2003. Likewise, the indefinite idling of the Lufkin, Texas and Port-Alfred, Québec mills, announced in December 2003, combined with improved operating efficiency, should reduce our costs by at least $125 million in 2004. Over the past three years, Abitibi-Consolidated has rationalized over 1.4 million tonnes of capacity, reflecting our determination to remain the low-cost producer.

The Abitibi-Consolidated Operating System enhances not only productivity but profitability as well. It provides a uniform Company-wide platform that facilitates the deployment of standardized manufacturing processes, the sharing of best practices and the establishment of benchmarks for continuous improvement. The Operating System will enable us to continue reducing costs throughout the organization without incurring major capital expenditures. A measure of the system's effectiveness is the fact that during the third quarter of 2003, our overall newsprint production costs were lower than they had been in 15 quarters. This was achieved despite taking nearly one million tonnes of market-related downtime last year.

The Operating System impacts the organization at all levels and has helped the Company move several strategic initiatives forward, including our focus on sustainability. Over the year, we made substantial progress in forest certification and conservation. To date, Abitibi-Consolidated has had more than 7 million hectares of Canadian forestlands certified by third-party audit under the Canadian Standards Association sustainable forest management standard. During 2003, we also entered into a partnership with World Wildlife Fund Canada to identify and protect high-conservation-value forests. This partnership agreement covers an area of over 1.3 million hectares and is the world's largest commitment of its kind. You can learn more about Abitibi-Consolidated's commitment to sustainability later in the report, beginning on Page 21.

FOCUS ON WORLD-CLASS CUSTOMER SERVICE

We pride ourselves on delivering world-class customer satisfaction. Products of exceptional quality, backed by superior customer service, are integral parts of the overall value proposition at Abitibi-Consolidated. Customer service elements have been incorporated into our Operating System, and we've created multiple channels to facilitate customer feedback. Listening to our customers has helped us run our business more effectively while better meeting their needs. This is evidenced by last year's overall 36% improvement in our customer satisfaction measure, including for example a 15% improvement in pressroom runnability for our 10 biggest customers in North America. Moreover, an open dialogue with customers has increasingly led to discussions about developing long-term agreements to reduce price volatility and jointly drive costs from the supply chain.

To better serve the needs of existing and future customers, on-going product diversification has enabled us to benefit from increased demand for value-added grades, while offering customers a one-stop shop for groundwood printing papers. Our Company-developed *Alternative Offset®* and *Equal Offset®* product lines have been particularly successful, opening new niches with major growth potential. A $181 million conversion project at the Company's Alma, Québec mill, to be completed in the second half of 2004, was undertaken specifically to continue meeting the market's growing appetite for these grades.

In our wood products business, we've followed a parallel strategy of expanding into higher margin, value-added offerings. The value-added product mix now represents almost 10% of this segment's sales and includes bed frames, finger-jointed flanges and I-joists.

POSITIONED FOR THE RECOVERY

Looking ahead, we're optimistic. As we enter 2004, available supply and anticipated demand are balanced. Therefore, any strengthening in the economy will have a direct impact on our business, improving operating rates and price. Owing to the stringent management of our cost structure, Abitibi-Consolidated is positioned to benefit with the largest upside potential when the anticipated recovery takes hold. As market conditions improve, we'll take advantage of both increased prices and volumes while also leveraging our competitive advantages of bringing idled capacity back on line as required, thereby lowering costs and increasing returns.

We also see some favourable longer term trends. For instance, free urban commuter newspapers are picking up momentum in North America. Likewise, there is growing popularity among ethnic language newspapers in the U.S. We believe the success of these papers supports the notion that our newsprint products will continue to find new end uses and that our customers will continue adapting to a changing environment. We also see progress in other areas. There are indications that the long-running softwood lumber dispute may be resolved, which would provide a major boost for our wood products segment.

For our part, we are continuing to build for the future. In the world's fastest growth markets, our PanAsia joint venture announced, in September of 2003, plans to build a new 330,000 tonne newsprint mill in China's Hebei Province. The facility is scheduled to be up and running by mid-2005 and will be one of the most cost-competitive mills in the world, built at a cost of less than US$1,000 per tonne. PanAsia already holds a 22% share of industry sales in non-Japan Asia, and the new mill will continue to ensure that we have the largest presence in these dynamic markets.

Given the complexity of today's global economy, there will always be some degree of uncertainty about precisely how events are likely to play out in the months ahead. However, investors can be certain about one thing as 2004 continues to unfold: We are committed to realizing Abitibi-Consolidated's vision – updated during the course of 2003 – *"to be the leading forest products company – supplying the world with papers for communication."* Attaining this vision is not an end in itself. Rather, we see our progress in this regard as the best means of maximizing shareholder returns and meeting the changing needs of our customers and employees.

To also respond to the changing needs of our shareholders, we continue to take a leadership approach in matters of corporate governance, always moving towards the best practices. Among the steps taken, the Company has implemented the commitment made at last year's annual meeting to expense its stock option plan in 2004. We have also significantly enhanced our corporate governance practices above the standards of compliance set forth by the Sarbanes-Oxley Act as well as the Toronto and New York stock exchanges.

This year, we will focus our efforts on a handful of carefully considered strategic priorities that we have identified as key to the success of our organization. Top priorities this year include:

Profit – We will increase margins and cash inflow by improving costs and revenues, then focusing on cash management.

Operating System – We will continue to improve our operating margins by increasing productivity, leveraging overall equipment effectiveness and standardizing our operating processes.

Customer Service – We will ensure that we continue to be the preferred supplier for our customers by committing to a further improvement in our performance measurements.

The Company has a solid strategy in place and a highly committed team to implement it. We are confident that in future, when investors or customers talk position, Abitibi-Consolidated will continue to be front and centre in our dynamic global industry.

Richard Drouin

Richard Drouin
Chairman of the Board

John Weaver

John W. Weaver
President and Chief Executive Officer

Our Business at a Glance

Operational Positioning: Abitibi-Consolidated operates 12 of the 17 lowest cost newsprint mills in North America.

Newsprint

Pierre Héroux, Back Tender, Paper Machine Amos

We are privileged to supply a very diverse order book of over 2,000 customers worldwide. Here are some examples of newspapers our publishing partners print:

- *Arizona Republic*
- *Atlanta Journal-Constitution*
- *Chicago Tribune*
- *Cincinnati Enquirer*
- *Daily Mail* (U.K.)
- *Dallas Morning News*
- *Globe & Mail*
- *Indianapolis Star*
- *Le Journal de Montréal*
- *New York Times*
- *New York Daily News*
- *Pittsburgh Post-Gazette*
- *Star Tribune*
- *The Mirror* (U.K.)
- *Toronto Star*
- *Washington Post*

In 2003, net shipments of newsprint were 4,611 thousand tonnes and total sales amounted to $2,805 million, representing close to 59% of overall sales for the Company.

WHAT WE MAKE

ABINEWS™ is used for newspapers and general commercial printing such as inserts, circulars and directories. This grade can service all different kinds of presses and can be manufactured with recycled content. With ownership interests in 22 newsprint mills, we can ensure prompt, quality service the world over. It's this flexibility that helps ensure that we meet our customers' needs.

OUR PROGRESS

At year-end, total assets for the newsprint segment were in the order of $6,561 million. Of these assets, a recent independent study found that Abitibi-Consolidated operates 12 of the 17 lowest cost newsprint mills in North America. Over the past year, we've placed particular emphasis on growing this strength. First, we've managed our inventory levels and also focused on reducing working capital. In addition,

From left to right:

[illegible], Vice-President, Newsprint – International Operations

Paul Planet, Senior Vice-President, International Sales & Operations

Colin Keeler, Senior Vice-President, North American Newsprint Sales

Thor Thorsteinson, Senior Vice-President, North American Newsprint Operations

2003 NEWSPRINT CAPACITY BY MILL
(capacity in thousands of tonnes)

Mill	Newsprint
Canada	
Alma (Québec)	90
Amos (Québec)	206
Baie-Comeau (Québec)	595
Belgo (Québec)	273
Clermont (Québec)	362
Grand Falls (Newfoundland)	203
Iroquois Falls (Ontario)	253
Kenora (Ontario)	151
Mackenzie (British Columbia)	188
Port-Alfred (Québec)	282
Stephenville (Newfoundland)	189
Thorold (Ontario)	431
	3,223
United States	
Alabama River (Alabama)	264
Augusta Newsprint (Georgia) (1)	222
Lufkin (Texas)	149
Sheldon (Texas)	328
Snowflake (Arizona)	348
	1,311
International	
Bridgewater (United Kingdom) (1)	292
Chongwon (South Korea) (PanAsia) (1)	95
Jeonju (South Korea) (PanAsia) (1)	420
Shanghai (China) (PanAsia) (1)	70
Singburi (Thailand) (PanAsia) (1)	65
	942
	5,476

(1) Capacity figures shown reflect our proportionate share ownership.

we've increased our productivity and reduced material usage through the roll-out of the Abitibi-Consolidated Operating System, whereby we've created structured and clear targets for our continuous improvement efforts. These efforts have had compelling effects. In the third quarter of last year, overall newsprint costs for the Company were lower than they've been in 15 quarters.

We've also delivered on our promise to provide our customers with an ever-increasing value proposition. This year, our 10 biggest North American customers saw on average a 15% improvement in their pressroom runnability. By reducing the number of breaks and resulting pressroom stoppages, our customers are saving money and we're creating a premium for Abitibi-Consolidated products. Other initiatives, such as our "Discovery Program", have also opened new channels to understand our customers' needs and help them improve their use of our products, enhancing our value proposition.

Last year, we had to make tough decisions in a difficult market. Twice over the last twelve months, the Company raised newsprint prices with producer operating rates of 90%. We also took a disciplined approach of balancing our production with demand and further reduced costs by focusing our downtime. In 2003, a total 432,000 tonnes were indefinitely idled.

GOING FORWARD

In the year to come, we will balance our production with our order book. This will mean continued focused downtime of our currently idled capacity in North America, so we can leverage our best assets by operating them at full capacity in order to drive down costs. Abitibi-Consolidated will also continue to focus on enhancing productivity through the Operating System, squeezing out inefficiencies and narrowing the gap between current production and our technical limits. With a forecasted economic recovery and improved productivity, the Company anticipates selling as much, if not more, newsprint in 2004 than in 2003.

Strategic Positioning: Our hydroelectric assets give us a competitive edge by limiting the effects of price volatility.

Iroquois Falls, Ontario

RECYCLING PROGRAM

Abitibi-Consolidated is the world's largest recycler of newspapers and magazines. The Company manages the recovery of over 2.1 million tonnes of paper per year in North America, Europe and Asia. As part of this collection effort, we run programs such as Paper Retriever® which help divert paper from the waste stream and generate revenues for partnering non-profit organizations. The following newsprint mills use recycled content in their production:

Alabama River	26%
Alma	34%
Augusta Newsprint	35%
Baie-Comeau	11%
Belgo	13%
Bridgewater	100%
Chongwon	100%
Jeonju	100%
Kenora	37%
Shanghai	100%
Sheldon	100%
Singburi	100%
Snowflake	100%
Thorold	100%

LOGISTICS FACTOID

To transport our products, we've had to build one of the largest logistics organizations in Canada. There are more than 620 physical shipments of Abitibi-Consolidated products delivered by boat, train or truck on any given day.

INTERNATIONAL NEWSPRINT SALES

As a global company, Abitibi-Consolidated serves customers the world over in almost 70 countries, including:

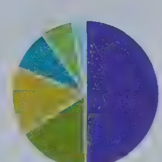
Algeria, Argentina, Aruba, Australia, Bangladesh, Barbados, Belgium, Bermuda, Brazil, China, Colombia, Costa Rica, Curaçao, Dominican Republic, Ecuador, Egypt, El Salvador, France, Germany, Greece, Guadeloupe, Guatemala, Haiti, Holland, Honduras, India, Indonesia, Iran, Ireland, Israel, Italy, Japan, Jordan, Kuwait, Lebanon, Libya, Luxembourg, Malaysia, Malta, Martinique, Mexico, Morocco, Myanmar, Nepal, Nicaragua, North Korea, Norway, Pakistan, Panama, Peru, Philippines, Portugal, Puerto Rico, Saudi Arabia, Singapore, South Korea, Spain, Sri Lanka, St. Marteen, Sweden, Taiwan, Thailand, Trinidad and Tobago, Turkey, United Kingdom, Uruguay, Venezuela and Viet Nam.

Abitibi-Consolidated is the only North American newsprint producer with a local manufacturing facility in Europe. The Company's Bridgewater mill in the U.K., together with its North American exports, makes Abitibi-Consolidated the fifth largest supplier of newsprint in Europe. Along with its strong European presence and the Company's PanAsia joint-venture mills in South Korea, China and Thailand, Abitibi-Consolidated will continue to leverage the advantages of its geographic diversification. Furthermore, as the long-term and preferred supplier to Latin America, we are well situated to benefit from the anticipated growth in this region of the world.

The Company's newsprint growth strategy continues to revolve around Asia. Through PanAsia, we have the largest presence in the world's fastest growing newsprint market. With 5% consumption growth expected each year through 2010, our investments in the Jeonju, Chongwon, Shanghai and Singburi mills continue to yield consistent results. The recently announced project to build and operate a 330,000 tonne per year newsprint mill near Beijing with Hebei Longteng Paper Corporation will ensure that we maintain leadership and maximize the potential for our products in Asia.

2003 DISTRIBUTION OF NEWSPRINT SALES

- United States 50%
- Europe 16%
- Asia 15%
- Canada 9%
- Latin America 7%
- Other Countries 3%



Value-added Papers

Abitibi-Consolidated is the largest producer of uncoated groundwood in the world. As in the Company's newsprint segment, its North American capacity is nearly as large as its three closest competitors combined. The Company has a total annual production capacity of over 2 million tonnes of uncoated groundwood, also called value-added papers, and is the only value-added producer to manufacture the full spectrum of products in these grades. At year-end, total assets for the value-added segment were in the order of $2,874 million.

In 1995, Abitibi-Consolidated launched its Company-developed offset substitute product, *Alternative Offset® (AO)*. This was followed in 2000 with the launch of the *Equal Offset® (EO)* grade. These products compete as alternatives to uncoated freesheet grades, and sales have grown dramatically from 194,000 tonnes in 2000 to 322,000 tonnes for 2003. *AO/EO* is manufactured using the groundwood pulping process, a process that not only uses fewer chemicals but also fewer trees. Since these groundwood products require less virgin fibre to manufacture the same amount of paper than a kraft pulping process, our *AO* and *EO* grades ensure a wise use of natural resources. Furthermore, these grades use a chlorine-free bleaching process.

In addition to our innovative *AO/EO* strategy, we continue to be the largest supplier of SCB and Softnip grades with 420,000 tonnes, as well as a major player in SCA at close to 200,000 tonnes. Also, we are a major directory supplier to the U.S. regional Bell operating companies and other directory customers. In 2003, net shipments of value-added paper were 1,810 thousand tonnes and total sales amounted to $1,396 million representing more than 29% of overall sales for the Company.

WHAT WE MAKE

In the value-added segment, we produce several grades of paper, each with distinctive qualities. Here are examples of how our brands are used in everyday products:

ABILITE™	– telephone directories, B-to-B catalogues
ABICAL™	– flyers, inserts, magazines, catalogues
ABISERT™	– newspaper insert jackets
ABIFORM™	– business forms
ABIBOOK™	– paperbacks, novels
ABIBRITE™	– inserts, newspapers, books, flyers
Equal Offset® ***Alternative Offset®***	– manuals, envelopes, direct mail, books, promotional material, maps

From left to right:

David Schirmer, Senior Vice-President, Value-added Paper Sales

Alain Grandmont, Senior Vice-President, Value-added Paper Operations

2003 VALUE-ADDED PAPER CAPACITY BY MILL
(capacity in thousands of tonnes)

Mill	Total Value-added Papers & Pulp
Canada	
Alma (Québec)	221
Beaupré (Québec)	215
Belgo (Québec)	106
Fort Frances (Ontario)	371
Fort William (Ontario)	147
Grand Falls (Newfoundland)	8
Iroquois Falls (Ontario)	44
Kénogami (Québec)	190
Kenora (Ontario)	93
Laurentide (Québec)	374
Port-Alfred (Québec)	36
Stephenville (Newfoundland)	4
	1,809
United States	
Lufkin (Texas)	234
	234
International	
Jeonju (South Korea) (PanAsia)[1]	83
	83
	2,126

(1) Capacity figures shown reflect our proportionate share ownership.

Here are the names of some of this year's U.S. bestsellers printed on our paper:

- *Lawless* by Nora Roberts
- *Q Is for Quarry* by Sue Grafton
- *Answered Prayers* by Danielle Steel
- *The Runaway Jury* by John Grisham
- *Seabiscuit* by Laura Hillenbrand
- *Temptation* by Nora Roberts
- *Backwood Farm* by Anne Rice
- *Cry, the Beloved Country* by Alan Paton
- *East of Eden* by John Steinbeck
- *Under the Tuscan Sun* by Frances Mayes
- *The Secret Life of Bees* by Sue Mon Kidd
- *Life of Pi* by Yann Martel
- *Blessing* by Anna Quindlen
- *Three Junes* by Julia Glass
- *Rich Dad Poor Dad* by Robert Kiyosaki

GOING FORWARD

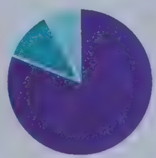
With the start-up this summer of a 230,000 tonne *Equal Offset*® grade machine at the Company's Alma, Québec mill, we're continuing to convert newsprint capacity towards the valued-added segment. As the newsprint market matures in North America, our strategy for converting capacity towards growth-driven value-added markets is an important way we see Abitibi-Consolidated grow.

This growth allows us to respond to the continuing trend of advertisers shifting to higher value paper grades and to further penetrate traditional freesheet markets with economical and environmentally responsible alternates. Because Abitibi-Consolidated has the full spectrum of products in the value-added segment and since it can leverage the service capabilities of the entire organization, our customers can rely on us for all their paper needs.

At the same time, the value-added segment will continue to apply the Abitibi-Consolidated Operating System to production, reducing inefficiencies throughout the organization.

2003 DISTRIBUTION OF VALUE-ADDED PAPER SALES

- United States 81%
- Canada 11%
- Other Countries 8%



Product Positioning: By converting a newsprint production line to *Equal Offset®* paper, we're positioning ourselves for growth in new niche markets.

Alma, Québec

Wood Products

[illegible]

To harvest the wood we need for our business while ensuring the long-term sustainability of our forests, the Company has to monitor and manage vast expanses of forestlands. Indeed, Abitibi-Consolidated is entrusted with over 18 million hectares of woodlands, a landmass over four times larger than Switzerland. At year-end, total assets for the wood products segment were in the order of $750 million.

In 2003, net shipments of wood products were 1,930 million board feet and total sales amounted to $585 million, representing more than 12% of overall sales for the Company.

WHAT WE MAKE

From 1 x 2 furring strips to 2 x 12 random lengths, Abitibi-Consolidated provides the wood products market with a broad array of high-quality goods.

We're proud of our partnerships with customers including:

- Lowe's
- Weyerhaeuser
- Georgia-Pacific
- Universal Forest Products
- Carter-Jones Lumber
- Toiture Mauricienne
- 84 Lumber
- Stock Building Supply
- Home Depot
- Banks Corporation
- C.J. Hodder Lumber
- Industries Perron
- Alpa Forest Products
- Rona

From left to right:

Louis-Marie Bouchard, Senior Vice-President, Woodlands & Sawmill Operations

Yves Laflamme, Vice-President, Sales and Marketing, Wood Products

OUR PROGRESS

Over the year, we concentrated on addressing the issues important to our wood products business. The U.S.-Canadian softwood lumber dispute cost the Company $77 million in countervailing and anti-dumping duties in 2003. Abitibi-Consolidated is working aggressively on both sides of the border to encourage the U.S. and Canadian governments to find a reasonable solution to this issue – a solution that supports free trade of forest products and encourages the long-term stewardship of the forestlands under our care. We've played an active role as an industry leader and worked hard to create a credible voice in the discussion to resolve differences.

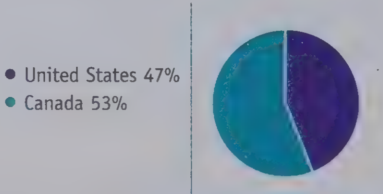
Abitibi-Consolidated has worked to ensure the sustainability of our forest practices. Building on the basis of our ISO 14001 certification completed in 2002, we have committed to have all North American woodlands certified under a third-party audited sustainable forest management (SFM) standard by the end of 2005. And, we've made a good deal of progress on this objective. Since the beginning of 2003, Abitibi-Consolidated has had more than 7 million hectares of Canadian forestlands CSA SFM certified by third-party audit. In the U.S., the Company has adopted the SFI certification standard, to best respond to the needs of privately held forests common in the U.S.

Abitibi-Consolidated also believes it has a responsibility to play an important role in protecting high-conservation-value forests (HCVFs). With respect to this commitment, the Company is extremely pleased to have partnered with WWF-Canada. On November 17, 2003, the presidents of WWF-Canada and Abitibi-Consolidated signed a collaborative agreement to identify HCVFs. A pilot project is already underway in the Québec region of Saguenay, which encompasses 1.3 million hectares of forestlands with a wide number of diverse stakeholders. The learning resulting from this pilot project will be applied throughout the Company's woodlands and will establish defined HCVFs for future generations.

GOING FORWARD

Throughout 2003, we've made important headway on our long-term strategy of moving towards higher margin value-added wood products. The value-added product mix now represents almost 10% of this segment's sales. As planned, in May of last year, the Abitibi-LP joint venture began producing I-joists with an annual production capacity of 70 million linear feet. Also in 2003, we invested $5 million to convert the Saint-Prime, Québec sawmill to remanufacturing and expand the La Doré, Québec operation. The Saint-Prime, Québec remanufacturing facility has begun the production of bedframe components and furring strips, increasing our capacity in these products by 20 million board feet. The expansion at the La Doré, Québec division will add 20 million board feet to our production of finger-jointed lumber. These investments will continue to increase Abitibi-Consolidated's secondary processing capacity, better positioning us to meet consumer demand for these products.

2003 DISTRIBUTION OF WOOD PRODUCT SALES



Leopold Dubé
Stacker Operator, Opitciwa

2003 PRODUCTION CAPACITY BY REGION

		Share of Production	
		Capacity (MLf)	Capacity (MBf)
SAWMILLS			
QUÉBEC			
Québec West			
Abitibi	*Champneuf, Comtois, Senneterre*		317
Québec Centre			
Lac-Saint-Jean	*Chibougamau, Girardville, Normandin, La Doré, Roberval, Saint-Thomas*		698
	Produits Forestiers Petit Paris		45
Saguenay	*Saint-Fulgence*		108
	Scieries Saguenay		23
Mauricie	*La Tuque*		108
	Produits Forestiers La Tuque		68
Québec East			
Côte-Nord	*Outardes*		270
Charlevoix	*Petit-Saguenay, Saint-Hilarion*		61
BRITISH COLUMBIA			
Mackenzie			448
Total – Sawmills			**2,146**
REMANUFACTURING AND ENGINEERED WOOD FACILITIES			
Lac-Saint-Jean	*Saint-Prime, Saint-Prime Finger-jointing*		91
Saguenay	*Abitibi-LP Engineered Wood*	35	
Charlevoix	*Château-Richer, Manseau*		84
Total – Remanufacturing and Engineered Wood Facilities		**35**	**175**

Customer Positioning: We've strengthened our commitment to world-class customer service through our Operating System, which offers multiple feedback channels and fosters enhanced partnerships with our customers.

From left to right:

Claude Lamothe, Sales Manager,
Trusses & Beams Business and Development
Montréal

John Daly, Plant Manager,
P&R Truss
Universal Forest Products Company
Hudson, New York

Sustainability Report

Our Position Today

Our vision is to "be the leading forest products company – supplying the world with papers for communication". This leadership is not simply about size, having the best products or managing the best assets. To be a leading forest products company, we must ensure the sustainability of our practices and meet the growing needs and expectations of employees, investors, customers and the communities in which we operate.

Abitibi-Consolidated is committed to developing policies and practices that reflect the interconnectivity of the three pillars of sustainable development, namely economic, environmental and social. We recognize that we have a major role to play in creating a balanced approach towards these values, while ensuring a continued supply of quality forest products at competitive costs.

To achieve this objective, we need to ensure transparency, trust and effective two-way communication with stakeholders such as governments, environmental groups, recreational users and First Nations. Recent examples of our proactive approach include partnering with World Wildlife Fund Canada (WWF-Canada) in a new project focused on high-conservation-value forests, as well as our leadership in sustainable forest management (SFM) registration.

Central to our efforts are Abitibi-Consolidated's Environmental, Health and Safety and Sustainable Forest Management policies that go beyond compliance with laws and regulations. These policies commit to a Company-wide Environmental Management System (EMS) that provides each operation with a flexible platform to implement best practices and procedures, while ensuring a commitment to the wise use of resources. To learn more about Abitibi-Consolidated's EMS and the underlying corporate policies mentioned above, visit the environment section of our website at **www.abitibiconsolidated.com**.

In the following pages, we discuss some of the initiatives undertaken or improved upon in 2003, touching upon core areas that reflect the growing sustainability of our practices.

Conservation

Over the past year, Abitibi-Consolidated has taken important steps to help ensure forest conservation. Working in partnership with diverse stakeholders, we are identifying and setting aside candidate areas for protection. In our broader commitment to conservation, we have also helped ensure the wise use of resources through forest regeneration, the use of recyclable materials, and third-party certification of our forest management practices.

PROTECTING THE BOREAL FOREST

The boreal forest accounts for almost 75% of Canada's productive woodlands and 50% of the industry's annual fibre harvest. Managing this precious resource in a manner that is both environmentally sustainable and economically viable is of vital importance to our organization, our industry and communities.

PARTNERING WITH WWF-CANADA

As part of our commitment to help ensure the conservation of the boreal forest, the Company has partnered with WWF-Canada in a pioneering initiative involving high-conservation-value forests (HCVFs).

In November 2003, the presidents of WWF-Canada and Abitibi-Consolidated signed a collaborative agreement regarding the identification and conservation of HCVFs. A pilot project is already underway in the Saguenay region of Québec, an area encompassing 1.3 million hectares of woodlands and involving a number of stakeholders with diverse interests. The project will contribute to Québec's provincial government strategy for Protected Areas, while helping ensure that native plant and animal species – such as the threatened woodland caribou – have a healthy habitat in which to thrive.

Lessons learned through this initiative will enhance forest management throughout the organization and, as Monte Hummel, President of WWF-Canada, observed, "in the end, what we learn from this project can be applied to forestry operations across Canada using a standardized and tested HCVF toolkit."

CONSERVATION EFFORTS IN NEWFOUNDLAND

Abitibi-Consolidated's gift of a 768-hectare tract of forestland in Central Newfoundland to the Nature Conservancy of Canada (NCC) is another demonstration of our commitment to conservation. Situated on the Lloyd's River Escarpment, these forests and wetlands provide a critical habitat for the endangered Newfoundland pine marten. This newly protected area was part of the NCC's second annual "Gifts to Canadians" program, designed to help conserve biodiversity from coast to coast.

Canton Saint-Père, Québec, 1989

Canton Saint-Père, Québec, 2003

2003 REGENERATION AND PLANTINGS BY REGION

Region	Natural Regeneration (average)	Seedlings in 2003 (in millions)
Newfoundland	85%	0.9
Québec	70%	26.2
Ontario	43%	17.2
British Columbia	0%	4.2
Total		**48.5**

HCVFS AT A GLANCE

High-conservation-value forests (HCVFs) are defined as forests of outstanding and critical importance because of their high environmental, socio-economic, biodiversity or landscape values. Experts agree that properly identifying, managing and monitoring areas of high conservation value is critical to ensuring biodiversity and maintaining the overall health of our ecosystems.

The identification of HCVFs involves a multi-stage approach. First, a rapid assessment and mapping of potential HCVF areas is conducted on a broad scale, based on indicators of biologically or environmentally important forest values. Next, these broad areas are further defined within eco-regions and a more detailed investigation is conducted in order to delineate actual HCVFs. In addition to scientific research, the process includes consultation with local stakeholders in order to identify forest-related community needs and address relevant cultural considerations.

MODEL FOREST COLLABORATION

Abitibi-Consolidated has been a strong supporter of the Canadian Model Forest Program since its inception in 1992 by the Canadian Forest Service. The principle is simple: Each model forest tests how partners representing diverse forest values can achieve sustainable forest management by taking an integrated approach to economic, environmental and social concerns. The Company is a partner in the Program's "learning forests" situated in the Lake Abitibi region of Ontario, the Waswanipi and Bas Saint-Laurent regions of Québec, and in the western region of Newfoundland. More details on our four partnership programs can be accessed at the following website: **www.modelforest.net**.

FOREST REGENERATION

The regeneration of harvested woodlands is an essential component of sustainable forest management. Although precise regulations and norms vary by jurisdiction, the underlying goal remains constant: to ensure that new-growth forests produce more wood than what was previously harvested while ensuring biodiversity. Abitibi-Consolidated utilizes a range of silviculture techniques and best practices including regeneration surveys, site preparation, the planting of traditional saplings, and aerial and terrestrial seeding, all in combination with natural regeneration. The actual method selected for a given site is dependent on local climate and soil conditions and wood species involved.

In Newfoundland and in Northern and Eastern Québec, nature largely takes care of regeneration, with natural regeneration rates ranging from 65% to 100%. Other regions, including Eastern and Central Ontario as well as the Mauricie forests of Central Québec, require human intervention since species common to those areas, such as jack pine, do not generally lend themselves to natural regeneration.

During 2003, Abitibi-Consolidated silviculture crews planted approximately 48.5 million jack pine and black spruce saplings. Among the milestones celebrated last year was the planting of the 200th million tree at the Company's Ontario-East Woodlands operation.

Left to right:

Isabelle Cloutier, Manager, Environment, Montréal

Guy Tremblay, Coordinator, Forest Certification, Montréal

Third-party Certification

To ensure that our Environmental Management System and forest management plans continue to meet the expectations of the general public, the Company has committed to certify all operations by independent third-party audit.

In 1997, we made a pledge to seek International Standards Organization (ISO) 14001 certification for all of our woodlands operations by the end of 2002. With this process successfully underway, the decision was made in 1999 to extend ISO certification to all manufacturing facilities by the end of 2003.

Since then, we raised the bar again and embarked on a 2005 commitment to certify all Abitibi-Consolidated publicly and privately owned forestlands to a sustainable forest management (SFM) standard.
We chose to certify publicly owned lands under the Canadian Standards Association's (CSA) SFM standard. This certification process requires that independent experts audit the Company's performance against a set of objective standards and procedures for sustainability and entails a structured public consultation process.

For all private holdings in Canada and the U.S., we chose to implement a system based on the Sustainable Forestry Initiative (SFI) standard. The SFI standard is better suited to an industry environment where the majority of woodlands are privately owned.

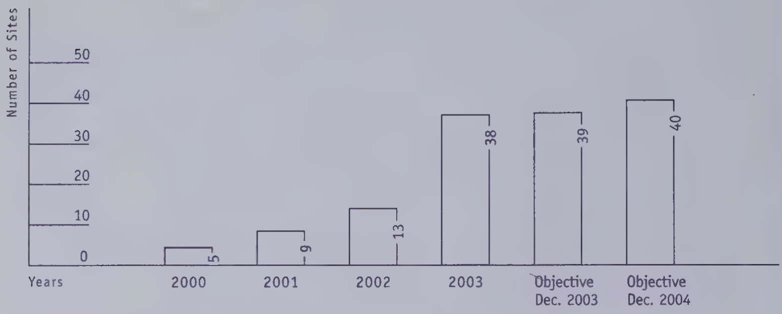
These third-party certifications were undertaken voluntarily to demonstrate our commitment to the forests entrusted to us.

ENVIRONMENTAL CERTIFICATION ESSENTIALLY COMPLETE

Our ambitious five-year program to have all Company manufacturing operations – pulp and paper mills, sawmills and power generating facilities – certified to the ISO 14001 standard by the end of 2003 was essentially completed on schedule with 25 facilities ISO-certified last year.

Remaining registrations include the La Tuque, Québec sawmill, which will be audited in March, 2004, as well as the ISO certification of the Alma, Québec mill, which has been rescheduled to year-end 2004 due to major capital projects.

ISO 14001 IMPLEMENTATION IN MANUFACTURING OPERATIONS



SFM STANDARD IMPLEMENTATION

(CSA on public lands and SFI on private lands)

FOREST CERTIFICATION ON TRACK

Abitibi-Consolidated is responsible for maintaining, developing and ensuring the sustainability of close to 18 million hectares of publicly owned forests. At present, the Company has had 7 million hectares recommended for certification under the CSA or SFI requirements, representing 39% of the land in our care. Due to these efforts, Abitibi-Consolidated woodlands were the first to achieve CSA SFM certification in three Canadian provinces. Forestlands currently certified include the Company's Québec-West and Newfoundland Woodlands Divisions, as well as the Ontario Fort William and Fort Frances Woodlands Divisions.

Abitibi-Consolidated is conscious of the importance of mutually recognizing certification systems. In support of such efforts, we were involved in the development of the Canadian Boreal Forest Stewardship Council (FSC) standard. In 2004, this new standard will be tested in one of the Company's woodlands divisions.

AUDITING OUR EMS

Last year, we successfully rolled out a new environmental audit program across our facilities worldwide. This compliance audit program takes full advantage of our local ISO 14001 certified EMS and related management tools.

The new approach involves auditing at two levels: First, operations carry out annual compliance audits that cover a quarter of the applicable legal and regulatory requirements. Thus, the entire range of requirements is audited over a four-year period. Second, to ensure the rigour of the process, the corporate Environment and Sustainability Team performs control audits in all operating sites once every four years.

In an effort to increase effectiveness and reduce overlap, our audit process is phased in with the many other routine environmental audits undertaken by governments, ISO, CSA and SFI.
To ensure this process, the Company has trained over 180 employees as internal compliance auditors, thereby promoting employee involvement, environmental awareness and a broader understanding of regulatory requirements.

Recycling

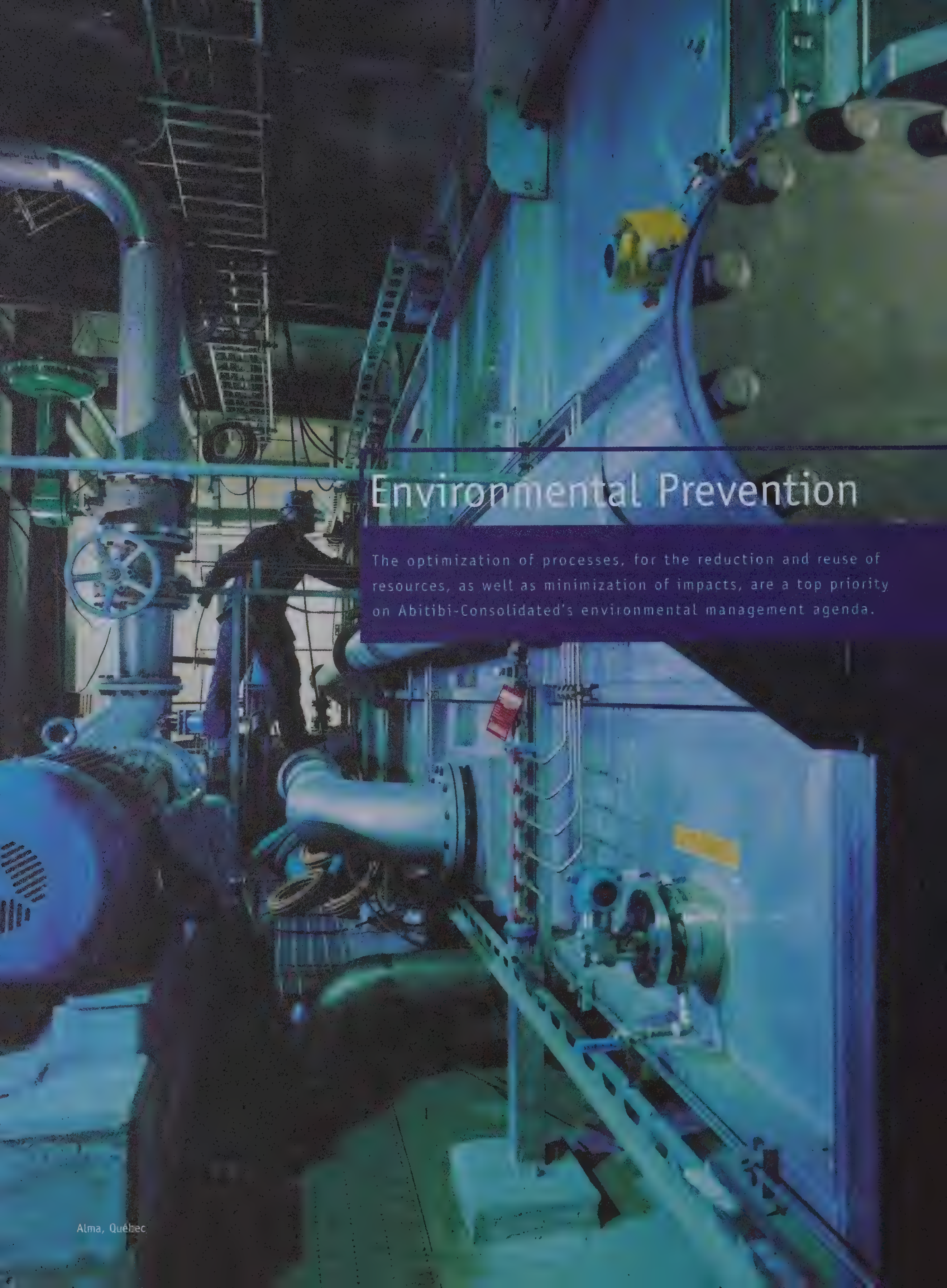
WORLD'S LARGEST RECYCLER OF NEWSPAPERS AND MAGAZINES

Old news is good news in terms of helping position Abitibi-Consolidated for sustainability. The Company is the world's largest recycler of newspapers and magazines, managing the recovery of over 2.1 million tonnes of paper per year in North America, Europe and Asia. As part of this collection effort, we run programs such as **Paper Retriever®** which helps divert paper from the waste stream and redirects it towards the production of recycled paper products.

In mid-November 2003, the Company announced the expansion of Paper Retriever® to five new cities in the Mid-Western United States: Akron, Cleveland and Columbus in Ohio; Detroit, Michigan; and Indianapolis, Indiana. We also signed an agreement with Eureka Recycling to recycle newspapers, magazines and other papers in St. Paul, Minnesota.

A study conducted by independent consultants indicates that Abitibi-Consolidated's Paper Retriever® program helps increase public awareness, adding an average of 4.5 percentage points to municipal recycling rates in cities with curbside collection. The program also generates more than $2.5 million annually in much-needed funding for partnering schools, churches and other non-profit organizations. These groups benefit from managing the collection of recycled papers for one or more of the 11,200 community drop-off Paper Retriever® containers distributed throughout the U.S. and Canada. In the U.K., the Company operates an additional 5,300 paper recycling drop-off sites.

Our recycling collections comprise a new "urban forest", from which we harvest significant volumes of recycled fibre used to produce recycled newsprint at Abitibi-Consolidated mills. To learn more about starting a Paper Retriever® program, please visit **www.paperretriever.com**.

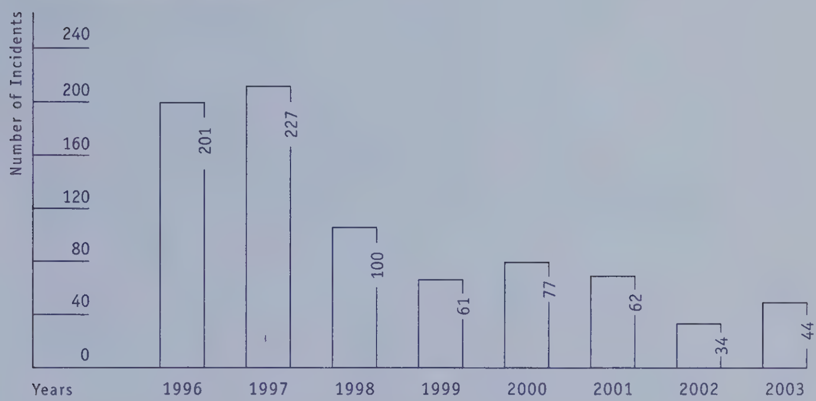


Environmental Prevention

The optimization of processes, for the reduction and reuse of resources, as well as minimization of impacts, are a top priority on Abitibi-Consolidated's environmental management agenda.

Alma, Québec

ENVIRONMENTAL CWN RESULTS



Environmental data prior to 2000 represents Abitibi-Consolidated's results before the Donohue Inc. acquisition. 1996 data represents Abitibi-Consolidated's results prior to the merger with Stone-Consolidated Inc.

PROGRESS ON CLIMATE CHANGE

Since 1990, our total greenhouse gas emissions have decreased by 8%, while net emissions, excluding combustion of renewable biomass, have decreased by 29%. Coupled with production increases of nearly 10% over the same period, the Company's sustained efforts to reduce environmental impacts have resulted in an improvement in greenhouse gas intensity of 35%, as measured in accordance with internationally recognized protocols.

In 2003, Abitibi-Consolidated was recognized for its leadership in the reduction and reporting of its greenhouse gas emissions and was awarded a Silver Medal by the Voluntary Challenge and Registry Inc., a non-profit partnership between industries and governments across Canada. A copy of our report can be found online at **www.vcr-mvr.ca**.

Along with members of the Forest Products Association of Canada, Abitibi-Consolidated was part of the first group of companies to sign a Memorandum of Understanding with the Government of Canada supporting an industry commitment to reduce its greenhouse gas (GHG) emission intensity by an average of 15 percent between 2008 to 2012. A copy of this memorandum can be downloaded at **www.nrcan-rncan.gc.ca**.

An in-house team has already begun exploring ways to ensure that the Company can realize this commitment in a cost-effective manner. The team's first step is to develop an Energy Action Plan that will include conservation goals, as well as strategies for increasing the use of renewable energy sources and self-generation.

CLOSELY WATCHED NUMBERS

Careful monitoring and measuring of the Company's environmental performance and the establishment of benchmarks are prerequisites to improved performance.

To that end, we track one of a series of key metrics known throughout Abitibi-Consolidated as our "Closely Watched Numbers" (CWN). Since 1995, the environmental CWN has been defined as the sum of certain types of spills and incidents where regulated parameters were exceeded. These CWN targets are adjusted each year to aim for a greater reduction in incidents than the previous year.

ENVIRONMENTAL CWN RESULTS

In 2003, for the first time in four years, Abitibi-Consolidated did not improve on the previous year's performance to meet its environmental CWN target. Our goal was to limit the number of environmental incidents to a maximum of 33; however, the Company recorded a final tally of 44 incidents. A review of 2003 helped identify emission opacity as an area of focus for 2004. We are committed to improvements, by meeting or exceeding the 2004 target of 30 incidents.

People and Communities

Angela Clary, Stacker Operator
Opitciwan

As indicated earlier, Abitibi-Consolidated's approach to sustainability is based on transparency, trust and effective two-way communication with all Company stakeholders. Nowhere is this more vital than with employees and in the communities where we operate.

HEALTH AND SAFETY

Abitibi-Consolidated continues to show improvement in health and safety performance. Protecting employees' health and ensuring their safety is an integral part of management responsibilities. During the course of last year, these responsibilities evolved significantly with business units establishing specific commitments. These commitments are creating a culture where employees are dedicated to taking the extra time and making the extra effort to ensure that we are operating safely.

Noteworthy efforts and results: In 2003, we reduced our total frequency of accidents to 3.0, meeting our set objective of a 10% annual reduction of health and safety incidents. Three Company operations successfully completed 2003 without a single accident involving lost time or modified work, including the Sablon and Batiscan woodlands operation, as well as our Alabama River joint venture. Our results continue to outperform the competition in all three segments of Company operations. We are proud of these results and the Company's continued positive trend towards reducing health and safety risks.

In 2003, we recognized the performances of operations in each of our business sectors:

BEST PERFORMANCE
paper mill: **Alabama River**
sawmill: **Petit-Saguenay**
woodlands operation: **Sablon and Batiscan**

MOST IMPROVED OPERATION
paper mill: **Alabama River**
sawmill: **Saint-Prime Finger-jointing**
woodlands operation: **Senneterre**

Objectives for 2004: Our health and safety objective is to continue improving our results by 10% each year. We've also established Company-wide objectives for continuous improvement such as enforcing a zero-energy principle for all our business units.

TOTAL ACCIDENT FREQUENCY

The measurement indicator used by Abitibi-Consolidated is Total Accident Frequency, which corresponds to the number of accidents involving lost time or requiring limited duty work assignments, multiplied by 200,000, divided by the number of hours worked.

WORKPLACE PRACTICES

The Company's commitment to the well-being of its employees is by no means limited to their physical health and safety. Building on significant commitments to work/life balance, the Company recently introduced new policies on promotion and training, along with a workplace diversity program. These initiatives have been backed up by investments in employee education and training, ensuring that our people have the knowledge and skills to get ahead.

During 2003, the Board of Directors also approved two new Codes of Conduct. One is applicable to members of the Board and senior management. The second code applies to other non-union personnel. Their aims are similar – to ensure that Abitibi-Consolidated directors, officers and employees conform to legal and ethical business practices, so as to protect the reputation and assets of the Company.

POWERFUL ENGINE OF LOCAL ECONOMIES

With approximately 16,000 employees and whole or partial ownership of 27 paper mills, 21 sawmills, 4 remanufacturing facilities, 1 engineered wood facility and 14 recycling centres, Abitibi-Consolidated contributes to the economic vitality of dozens of communities across Canada, the U.S., the U.K. and Asia. In its home base of Québec, for instance, the Company ranks among the top three industrial employers and injects approximately $2 billion annually into the province's economy in wages and procurement alone.

Abitibi-Consolidated's economic impact is greatest in the dozens of smaller, remote communities where its woodlands operations and mills tend to be situated. In the Saguenay – Lac-Saint-Jean region of Eastern Québec, close to 5,000 people earn their livelihoods from our diversified operations, including paper mills, sawmills, remanufacturing plants and woodlands operations. The payroll alone for the past year amounted to well over a quarter of a billion dollars. In addition, the Company has injected more than $600 million in procurements and capital investments, and has paid out approximately $140 million in government taxes.

The Company's commitment to its prevention-management philosophy is based on three distinctive areas:

MANAGEMENT LEADERSHIP:

- Target concrete actions
- Focus on measurement and rigour
- Meet requirements

CONTROL OF WORK ENVIRONMENT: FOSTERING SAFETY-CONSCIOUS MIND-SETS AND BEHAVIOUR:

- Create increasingly safe facilities and provide higher levels of health and safety training for all of our employees
- Manage all risks in the work environment

TAKING CHARGE OF HEALTH AND SAFETY:

- Manage overall prevention mechanisms and ensure employee involvement at all levels

SUPPORT FOR COMMUNITY ENDEAVOURS

Abitibi-Consolidated recognizes the needs and interests of the communities in which it operates and uses a structured approach in its donations and sponsorships program. In 2003, the Company contributed in excess of $1.8 million in philanthropic endeavours to hundreds of beneficiaries. Donations and sponsorships focus on three broad areas of funding: education, health and sustainable development.

An example of the Company teaming with its employees is the recent gift and transformation into a public park of the Company-owned Pointe Saint-Gilles woodlands, which borders the Gulf of the St. Lawrence River in Eastern Québec. What started out as a project to map the site and its 18 kilometres of paths grew into a full-fledged sustainable development project. The site incorporates a variety of urban, forest and seaside ecosystems, all within a kilometre of one another, and is home to a wide variety of plants as well as a seal rookery. Abitibi-Consolidated has signed a 10-year lease with a local non-profit corporation to preserve and develop the site for recreational purposes. Work undertaken during 2003 included the construction of culverts, bird observation platforms and boardwalks.

INTERACTING WITH FIRST NATIONS

As an integral part of its sustainable forest management approach, Abitibi-Consolidated runs a participative planning process that involves community stakeholders and First Nations. Over the years, the Company has developed positive relationships with these communities, through initiatives that contribute in a meaningful way to social and economic development.

In the early 1990s, for instance, the Atikamekw community of Obedjiwan, located in Québec, was faced with significant socio-economic problems. In an effort to resolve these issues, and based on the recommendations of a feasibility study, the band council collaborated with Abitibi-Consolidated to create the Opitciwan Sawmill Limited Partnership. Members of the Atikamekw community received specialized training and were able to fill 87% of the positions at the sawmill, which began operation in 1998. The success of the Opitciwan sawmill has earned it several awards, including the Aboriginal Business of the Year Award, and it is frequently cited as a model of its kind.

At our Mackenzie, British Columbia operations, the Company has developed long-standing relations with the Kaska Dena community. In 1989, Abitibi-Consolidated assisted the Kaska Dena in the establishment of Tsay Tay Forestry Ltd., which provides general management direction for First Nations business. Today, this company generates approximately $14 million in revenues.

That is not to say other Company initiatives involving collaborations with First Nations are void of challenges, as is evidenced by ongoing negotiations with the Grassy Narrows community. However, our desire to forge positive, mutually beneficial relationships with First Nations includes a commitment to always address contentious issues in a spirit of cooperation.

COMPELLING CASE FOR SUSTAINABILITY

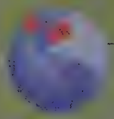
At Abitibi-Consolidated, we are proud of our achievements in our forestry, environmental, ecological and employment practices. Yet we realize there is still much to be accomplished. You may rest assured that we will strive for continuous improvement in all of these areas as we go about the business of sustainable development. To that end, we have adopted a balanced approach that takes into account the three pillars of sustainability: the environment, the economy and social concerns.

We believe there is a truly compelling case to be made for sustainability and that our approach will enhance the long-term value equation for all of our key stakeholders: employees, investors, customers, suppliers and communities alike.

To send in comments and questions or to learn more about Abitibi-Consolidated's sustainability-related policies and initiatives, visit the Company's website at **www.abitibiconsolidated.com**.

Community Positioning: By seeking community involvement with stakeholders and First Nations, we strive to create win-win partnerships that contribute to social and economic development.

Ian-Kevin Chachai, Shovel Wheel Tractor-loader
Entreprises forestières Mahikan, Obedjiwan, Québec



Canada

Québec – Newfoundland

Canada

Ontario

Canada

British Columbia

- Newsprint
- Pulp
- Value-added Papers
- Hydroelectric Power
- Sawmill
- Recycling Centre
- Remanucfacturing Facility
- Cogeneration

United States

United Kingdom

Asia

*Pan Asia Paper Company

At-a-glance Pulp and Paper Mill Information

As at December 31, 2003
(capacity in thousands of tonnes)

MILLS	Paper machines[3]	Newsprint	SC papers	*Alternative & Equal Offset®* & hi-brite	Directory paper	Specialty, bulky news & other	Market pulp	Total value-added papers & pulp	Total mill capacity
CANADA									
Alma (Québec)[4]	3	90		88	133			221	311
Amos (Québec)	1	206						–	206
Baie-Comeau (Québec)	4	595						–	595
Beaupré (Québec)	2			215				215	215
Belgo (Québec)	4	273		23		83		106	379
Clermont (Québec)	2	362						–	362
Fort Frances (Ontario)	3		69	215			87	371	371
Fort William (Ontario)	1			110		37		147	147
Grand Falls (Newfoundland)	2	203				8		8	211
Iroquois Falls (Ontario)	2	253				44		44	297
Kénogami (Québec)	2		190					190	190
Kenora (Ontario)	2	151		89		4		93	244
Laurentide (Québec)	2		374					374	374
Mackenzie (British Columbia)	1	188						–	188
Port-Alfred (Québec)[5]	3	282				36		36	318
Stephenville (Newfoundland)	1	189			4			4	193
Thorold (Ontario)	2	431						–	431
	37	3,223	633	740	137	212	87	1,809	5,032
UNITED STATES									
Alabama River (Alabama)	1	264						–	264
Augusta Newsprint (Georgia)[1]	2	222						–	222
Lufkin (Texas)	2	149	234					234	383
Sheldon (Texas)[6]	2	328						–	328
Snowflake (Arizona)	2	348						–	348
	9	1,311	234	–	–	–	–	234	1,545
INTERNATIONAL									
Bridgewater (United Kingdom)	3	292						–	292
Chongwon (South Korea)[1][2]	1	95						–	95
Jeonju (South Korea)[1][2]	6	420			83			83	503
Shanghai (China)[1][2]	1	70						–	70
Singburi (Thailand)[1][2]	1	65						–	65
	12	942	–	–	83	–	–	83	1,025
	58	**5,476**	**867**	**740**	**220**	**212**	**87**	**2,126**	**7,602**

(1) Capacity figures shown reflect our proportionate share ownership.
(2) PanAsia operations.
(3) Number of machines.
(4) Alma's capacity reflects the completion of the conversion project in the second half of 2004.
(5) 90,000 tonnes from Port-Alfred's machine #2 was removed following its permanent closure.
(6) 140,000 tonnes from Sheldon's machine #6 was removed following its permanent closure.

At-a-glance Wood Products Information

As at December 31, 2003

SAWMILLS		Number of facilities	Share of Production: Ownership	Capacity (MLf)	Capacity (MBf)
QUÉBEC					
Québec West					
Abitibi	*Champneuf, Comtois, Senneterre*	3	100%		317
Québec Centre					
Lac-Saint-Jean	*Chibougamau, Girardville, Normandin, La Doré, Roberval, Saint-Thomas*	5	100%		698
	Produits Forestiers Petit Paris	1	50%		45[(1)]
Saguenay	*Saint-Fulgence*	1	100%		108
	Scieries Saguenay	1	50%		23[(1)]
Mauricie	*La Tuque*	1	100%		108
	Produits Forestiers La Tuque	1	82%		68
Québec East					
Côte-Nord	*Outardes*	2	100%		270
Charlevoix	*Petit-Saguenay, Saint-Hilarion*	2	100%		61
BRITISH COLUMBIA					
Mackenzie		2	100%		448
Total – Sawmills		**19**			**2,146**
REMANUFACTURING AND ENGINEERED WOOD FACILITIES					
Lac-Saint-Jean	*Saint-Prime, Saint-Prime Finger-jointing*	2	100%		91
Saguenay	*Abitibi-LP Engineered Wood*	1	50%	35[(1)]	
Charlevoix	*Château-Richer, Manseau*	2	100%		84
Total – Remanufacturing and Engineered Wood Facilities		**5**		**35**	**175**

(1) Capacity figures shown reflect our proportionate share ownership.

The Company holds a 45% investment in Société en Commandite Scierie Opitciwan, in Obedjiwan, Québec, which has an annual production capacity of 31 MBf. The Company also has a 43% investment in Gestofor Inc., in Saint-Raymond-de-Portneuf, Québec, which has an annual production capacity of 40 MBf. The investments in these companies are accounted for using the equity method in the Company's consolidated financial statements.

At-a-glance Hydro Information

As at December 31, 2003

	Manicouagan Power Company (Baie-Comeau)	Star Lake Hydro Partnership (Grand Falls)	Grand Falls	Fort Frances	Kenora	Iroquois Falls	Hydro-Saguenay (Alma and Kénogami)	Total
Ownership (%)	60	51	100	100	100	100	100	
Capacity (MW)	326	18	57	27	15	80	145	668
Share of capacity (MW)	196	9	57	27	15	80	145	529
Generation (MWh)	2,834,546	142,801	484,201	108,581	49,524	514,649	795,085	4,929,387
Share of generation (MWh)	1,700,728	72,829	484,201	108,581	49,524	514,649	795,085	3,725,596
Share of generation received (MWh)	652,436	72,829	484,201	108,581	49,524	514,649	795,085	2,677,305
Average power price market reference ($CDN/MWh)								39
Average generation cash cost ($CDN/MWh)								9
Impact on EBITDA (in millions of $CDN)*								84

*The Company also has an investment of 49% in Exploits River Hydro Partnership which generated in its start-up year 25,375 MWh. This investment is accounted for using the equity method. Therefore, it has no impact on the EBITDA.

In 2003, low levels of water availability impacted hydroelectric generation. Fall rains restored these levels to normal by year-end; and going forward, the Company is optimistic for normalized generation in 2004.

In 2003, Abitibi-Consolidated successfully completed the construction of the Exploits River Hydro Partnership facility in Grand Falls, which is now in full operation. During 2004, the two-year project to refurbish the Iroquois Falls power generation station will be completed. The structural repairs have been finished and nine refurbished units will be brought on-line as soon as they are completed, providing 13 MW of additional capacity.

Management's Discussion and Analysis

As at February 27, 2004

Table of Contents

Overview and Highlights of 2003

Abitibi-Consolidated is a global leader in newsprint and uncoated groundwood (value-added groundwood) papers as well as a major producer of wood products, generating sales of $4.8 billion in 2003. With 10,000 employees, excluding Pan Asia Paper Co. Pte Ltd (PanAsia), the Company does business in more than 70 countries. Responsible for the forest management of 18 million hectares, Abitibi-Consolidated is committed to the sustainability of the natural resources in its care. The Company is also the world's largest recycler of newspapers and magazines, serving 17 metropolitan areas with more than 11,200 Paper Retriever® collection points and 16 recycling centres in Canada, the United States and the United Kingdom. Abitibi-Consolidated operates 27 paper mills, 21 sawmills, 4 remanufacturing facilities and 1 engineered wood facility in Canada, the U.S., the U.K., South Korea, China and Thailand.

Abitibi-Consolidated is one of the lowest cost global producers, annually marketing approximately 6 million tonnes of newsprint including third parties' volume, nearly 2 million tonnes of value-added groundwood papers and over 2 billion board feet of lumber.

$179 MILLION NET EARNINGS

Abitibi-Consolidated realized net earnings of $179 million, or 41 cents a share, in 2003 compared to net earnings of $259 million, or 59 cents a share, in the previous year. The weighted average number of shares outstanding remained constant at 440 million during these periods.

The Company's operating loss from continuing operations amounted to $322 million on net sales of $4,786 million in 2003 compared to an operating profit from continuing operations of $182 million on net sales of $5,122 million in 2002.

The decrease in net sales is mainly attributable to the stronger Canadian dollar compared to the U.S. currency and lower selling prices for value-added groundwood papers. These factors were partly offset by higher prices for newsprint as well as higher sales volume in the value-added groundwood papers and wood products segments.

Lower operating profit from continuing operations resulted mainly from the effect of the stronger Canadian dollar for an amount of $161 million and the provision for closure costs and asset write-offs totalling $134 million announced on December 10, 2003. Also, the Company incurred $51 million more in countervailing duties (CVD) and anti-dumping duties (AD) in 2003 than in 2002. Furthermore, the Company recognized in the fourth quarter a goodwill impairment of $21 million related to its wood products segment. These elements were partly offset by higher prices for newsprint as well as higher sales volume in the value-added groundwood papers and wood products segments.

In 2003, the Company recorded an after-tax gain of $622 million on the translation of foreign currencies, derived primarily from its U.S. dollar debt, compared to $56 million in 2002.

Selling, general and administrative expenses totalled $181 million in 2003 compared to $169 million in 2002. This change is primarily attributable to the Company's provision for bad debts having been reduced in 2002 as a result of increased insurance coverage and a capital tax credit recorded in 2002 for prior years. Expenses in 2003 were also affected by increased insurance premiums.

In the fourth quarter, the Company announced the indefinite idling of the Lufkin, Texas and Port-Alfred, Québec paper mills, resulting in a provision for closure costs of $67 million.

The increase in amortization of plant and equipment is mainly attributable to the asset write-off of $67 million following the permanent closure of two previously idled paper machines, one in Port-Alfred and one in Sheldon, Texas. In 2002, following the closure of the Thorold, Ontario thermo-mechanical pulp mill, the Company wrote off its remaining book value of $12 million.

In the fourth quarter of 2003, the Company performed the required annual goodwill impairment test and found that impairment did exist in its wood products segment, mainly due to market conditions and a stronger Canadian dollar. Consequently, an impairment charge of $21 million, representing the total goodwill for the wood products segment, was recorded.

Financial expenses totalled $389 million in 2003 compared to $444 million in 2002. The reduction is primarily attributable to lower interest expense due to the stronger Canadian dollar, lower interest rates and a lower debt level.

TABLE 1. IMPACT OF SPECIFIC ITEMS
In millions of dollars, except per share amounts

	2003	2002
	$	$
Net earnings as reported (in accordance with GAAP)	179	259
$ per share	0.41	0.59
Specific items (after taxes):		
Gain on translation of foreign currencies	(622)	(56)
Gain adjustment (gain) on sale of the Saint-Félicien pulp mill	3	(293)
Income tax adjustments	(36)	(64)
Interest earned on litigation settlement	–	(7)
Provision for closure costs	44	–
Asset write-offs	42	8
Goodwill impairment	21	–
Charge on debt repayment	–	7
Reversal of Countervailing and Anti-dumping duties	–	(13)
Loss excluding specific items (not in accordance with GAAP)	(369)	(159)
$ per share	(0.84)	(0.36)

Other expenses in 2003 include a gain of $2 million on the disposal of other assets and a reduction of $1 million compared to 2002 in fees related to the Company's securitization programs.

Income tax recovery during the year amounted to $151 million of which $36 million is mostly attributable to favourable settlements of certain tax litigation that had not been provided for in previous reporting periods. In 2002, the Company recorded an income tax recovery of $181 million of which $64 million was mostly attributable to a re-evaluation of future income taxes.

IMPACT OF SPECIFIC ITEMS

Table 1 shows how certain specific items have affected the Company's results in the reporting periods. The Company believes that it is useful supplemental information as it provides an indication of the results excluding these specific items. Readers should be cautioned however that this information should not be confused with or used as an alternative for net earnings (loss) determined in accordance with the Canadian generally accepted accounting principles (GAAP) as an indicator of performance.

As the above table indicates, during 2003, the Company recorded an after-tax gain on translation of foreign currencies of $622 million, an after-tax amount of $3 million related to an adjustment of the price received from the sale of 75% of the Saint-Félicien pulp mill as well as favourable income tax adjustments of $36 million. In the fourth quarter, the Company also announced the indefinite idling of the Lufkin and Port-Alfred paper mills, resulting in a provision for closure costs of $44 million after-tax and the permanent closure of two previously idled paper machines, one in Port-Alfred and one in Sheldon representing asset write-offs of $42 million after-tax. The Company also recorded $21 million in goodwill impairment in its wood products segment.

During 2002, the Company recorded an after-tax gain on translation of foreign currency of $56 million, a $293 million net profit from the sale of 75% of the Saint-Félicien pulp mill and a favourable income tax adjustment of $64 million.

The Company also recorded an after-tax gain of $7 million from interest earned on a favourable litigation settlement, an after-tax charge of $8 million for the write-off of the remaining book value of the Thorold thermomechanical pulp mill and an after-tax charge of $7 million associated with debt retirement. During 2002, there was also an after-tax reversal of $13 million for excess CVD/AD that had been provided for in the previous year but found to be unnecessary as a result of the final determination issued by the U.S. International Trade Commission (USITC) on May 22, 2002.

RATIONALIZATION/CONVERSION OF NEWSPRINT CAPACITY

In 2003, excluding PanAsia, the Company took 977,000 tonnes of market-related downtime in order to adjust production according to its order book. The downtime was mainly taken from the idling of the Sheldon mill and one machine at the Port-Alfred mill. The remaining downtime was taken through temporary shutdowns at all locations. This compares to 887,000 tonnes taken in 2002.

On December 10, 2003, the Company announced the continuation of its focused downtime strategy by indefinitely idling the Company's Lufkin and Port-Alfred paper mills, as of December 14, 2003, representing an additional combined annual capacity of 432,000 tonnes of newsprint and 270,000 tonnes of other paper grades. A provision for closure costs amounting to $67 million ($44 million after-tax) was recorded in the fourth quarter of 2003. This announcement affected 580 employees at the Lufkin mill and 640 employees at the Port-Alfred mill.

The Company also announced the permanent closure of two previously idled paper machines, one in Port-Alfred and one in Sheldon, representing a combined annual newsprint capacity of 230,000 tonnes. Consequently, a fourth quarter write-off of $67 million ($42 million after-tax) was taken. These actions, combined with improved operating efficiencies, should reduce annual operating costs by at least $125 million.

Combined with the already idled newsprint mill at Sheldon, the Company has therefore

TABLE 2. AFFECTED CAPACITY
As at December 31, 2003
Capacity in thousands of tonnes

	Total	Idled	Permanent Shutdown
Sheldon, Texas			
(Newsprint)	**468**	**328**	**140**
Port-Alfred, Québec			
(Newsprint)		282	90
(Other)		36	
	408	**318**	**90**
Lufkin, Texas			
(Newsprint)		150	
(Other)		234	
	384	**384**	
Total			
(Newsprint)		760	230
(Other)		270	
	1,260	**1,030**	**230**

TABLE 3. PANASIA'S FINANCIAL HIGHLIGHTS
In millions of U.S. dollars

	2003 $	2002 $
Net sales	**846**	797
EBITDA	**134**	218
Operating profit	**68**	153
Net earnings	**36**	91
Capital expenditures	**48**	17
Total assets	**1,375**	1,359
Long-term debt (net of cash & cash equivalents)	**354**	328

indefinitely idled 760,000 tonnes and permanently removed 230,000 tonnes of high-cost newsprint capacity, thereby improving its overall cost structure and better adjusting production to its order book for 2004. (See Table 2)

On December 11, 2002, the Company announced it would convert the newsprint machine at its mill in Alma, Québec to produce the Company-developed *Equal Offset®* paper grade. This project will permanently remove an additional 170,000 tonnes of annual newsprint capacity.

The Company begins 2004 with approximately one million tonnes of annual focused downtime. In spite of this reduced capacity, the Company anticipates selling as much, if not more, products in 2004 than in 2003.

PANASIA JOINT VENTURE

Abitibi-Consolidated owns 50% of PanAsia and, as per Canadian GAAP, consolidates the joint venture's financial information proportionally. The information in Table 3 represents the total activities of the joint venture and is presented in U.S. dollars.

PanAsia realized net earnings of US$36 million in 2003 compared to US$91 million the previous year. The joint venture's operating profit amounted to US$68 million on net sales of US$846 million in 2003 compared to an operating profit of US$153 million on net sales of US$797 million in 2002.

The increase of US$49 million in net sales is mainly attributable to a higher sales volume in brokered tonnage partly offset by lower selling prices. Lower operating profit resulted mainly from lower selling prices, the weakening U.S. dollar and higher cost of products sold.

The joint venture's cost of products sold excluding brokered tonnes increased by 15% in 2003 compared to the average cost per tonne in 2002. The increase is mainly attributable to higher recycled fibre and energy costs as well as a weaker U.S. dollar.

Investment in China

On September 10, 2003, PanAsia announced the creation of a 65-35 percent joint venture with Hebei Pan Asia Longteng Paper Corporation of China to build and operate a newsprint mill in the industrially developed Hebei Province of China, 280 km southwest of Beijing. Construction of the mill will begin during the first quarter of 2004 and it is expected to start production during the third quarter of 2005 with a rated capacity of 330,000 tonnes per year. The newsprint will be produced from 100 percent recycled fibre. The project represents an investment of approximately US$300 million without any direct cash contribution from PanAsia's joint venture partners.

DIVIDENDS

Dividends paid in 2003 amounted to $110 million compared to $176 million in 2002. In the second quarter of 2003, the Company's Board of Directors made the decision to reduce the quarterly dividend from $0.10 per share to $0.025 in light of market and currency exchange conditions.

In the fourth quarter of 2003, the Company announced that, going forward, dividend declarations will be decided upon at the same time as announcements of quarterly results and payable within the same quarter.

Results of Continuing Operations

In 2003, the Company changed the name of its "Lumber" segment to "Wood products" due to increased involvement in areas such as engineered wood. As previously mentioned, Abitibi-Consolidated sold, in 2002, its pulp mill in Saint-Félicien, which represented approximately 80% of the Company's market pulp capacity. Consequently, the Company has removed the results of the mill from its continuing operations.

In 2003, earnings before interest, taxes, depreciation and amortization (EBITDA)

TABLE 4. OPERATING PROFIT (LOSS) FROM CONTINUING OPERATIONS
In millions of dollars

	2003	2002
	$	$
Newsprint	(187)	0
Value-added groundwood papers	(49)	136
Wood products	(86)	46
	(322)	182

of $402 million, or 8.4% of net sales, were negatively impacted by $67 million of closure costs relating to the Port-Alfred and Lufkin mills. This compares to EBITDA of $846 million, or 16.5% of net sales, in 2002. Operating profit (loss) from continuing operations per business segment for 2003 and 2002 is presented in Table 4.

In 2003, newsprint's operating results were negatively impacted by $50 million for closure costs and $67 million for asset write-offs, compared to $12 million in 2002. Also in 2003, the value-added groundwood papers' operating results were negatively impacted by $17 million for closure costs. The wood products operating results were affected, in 2003, by an impairment charge of $21 million and in 2002, by a credit of $18 million related to a provision reversal for CVD/AD.

NEWSPRINT

Operating results

As described further in the section **Other Noteworthy Events**, the Company has included, in its newsprint segment, 100% of Alabama River's activities in 2003.

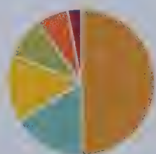
Net sales of newsprint were $2,805 million in 2003, compared to $2,915 million in 2002. Operating loss from continuing operations in 2003 was $187 million, or 6.7% of net sales compared to breakeven in 2002. The reduction in net sales is mainly attributable to a stronger average Canadian dollar compared with the U.S. currency and lower sales volume partly offset by higher average prices year-over-year. Operating loss from continuing operations in 2003 was also affected by $117 million of closure costs and asset write-offs.

The average newsprint mill net decreased to $609 per tonne in 2003, a reduction of 3% from the previous year primarily due to the strengthening of the Canadian dollar. The Company's shipments totalled 4,611,000 tonnes compared to 4,624,000 tonnes sold in 2002. In 2003, excluding PanAsia, the Company took 977,000 tonnes of market-related downtime in order to adjust production according to its order book. This compares to 887,000 tonnes taken in 2002.

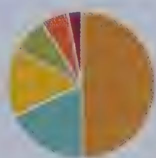
The Company's newsprint cost of products sold remained essentially the same in 2003 compared to 2002. The positive impact on cost of a stronger average Canadian dollar on the manufacturing costs of U.S. mills was basically offset by higher wood chips and energy prices combined with higher costs at PanAsia.

DISTRIBUTION OF NEWSPRINT SALES

2003
- United States 50%
- Europe 16%
- Asia 15%
- Canada 9%
- Latin America 7%
- Other Countries 3%



2002
- United States 50%
- Europe 18%
- Asia 15%
- Canada 8%
- Latin America 6%
- Other Countries 3%



Newsprint market

According to the Pulp and Paper Products Council (PPPC), North American newsprint demand declined by 1.1% in 2003 from 2002 levels. National advertising performed strongly but was partly offset by weaker retail and classified advertising. Inventories at non-dailies decreased by 8.3% compared to 2002. The average North American operating rate was 90% compared to 89% in 2002. North American imports increased 14.1% compared to the previous year to 232,000 tonnes, while exports remained flat at 2,606,000 tonnes.

At the end of 2003, total producers' and customers' newsprint inventories were 19,000 tonnes higher than December of 2002, and U.S. dailies' stocks moved up from 39 to 42 days of supply. The Company continued to employ disciplined inventory management in 2003 in order to match output with its order book, and by year-end, inventories were only slightly higher than 2002 year-end levels which were at a record low since the Donohue acquisition in 2000.

In 2002, according to an industry publication, prices in the United States for newsprint initially declined by US$55 per tonne through the first eight months of the year. Prices increased thereafter from August to December 2002 by US$35 per tonne. In 2003, two price increases were announced and were put in effect on March 1 and August 1. As a result, the 2003 year-end industry published transaction price stood at US$515/tonne, 9.6% above the year-end 2002 price. On January 12, 2004, an additional US$50 per tonne price increase was announced to take place February 1, 2004. Newsprint prices in international markets, with the exception of European countries, have increased between 10% and 20% during the year. In 2003, published transaction prices in Europe were approximately 10% lower than in 2002.

Management expects North American consumption to improve in 2004, increasing in the low single-digit range compared to 2003. Key risk factors to a consumption recovery include the strength of the North American economy, advertising expenditures and interest rate levels, which could dampen some key classified advertising categories. Management expects demand in Europe to improve in the low single-digits compared to 2003. The main risk factors to demand in Europe include weaker economic recovery and lack of employment growth in key markets such as Germany.

Change in capacity

On December 10, 2003, the Company announced the continuation of its focused downtime strategy by indefinitely idling the Company's Lufkin and Port-Alfred paper mills, as of December 14, 2003. The Company also announced the permanent closure of two previously idled paper machines, one in Port-Alfred and one in

Sheldon. Table 2 under **Rationalization/ Conversion of Newsprint Capacity** presents the affected capacity as at December 31, 2003.

On December 11, 2002, the Company announced it would convert the newsprint machine at its mill in Alma to produce *Equal Offset®* grade. This project will permanently remove 170,000 tonnes of annual newsprint capacity.

VALUE-ADDED GROUNDWOOD PAPERS

Operating results

Net sales of value-added groundwood papers were $1,396 million in 2003, compared to $1,541 million in 2002. Operating loss from continuing operations was $49 million, or 3.5% of net sales in 2003, compared to an operating profit from continuing operations of $136 million, or 8.8% of net sales, in 2002. The reduction in net sales is mainly attributable to a stronger average Canadian dollar compared with the U.S. currency and lower average prices year-over-year partly offset by higher sales volume. Operating loss from continuing operations in 2003 was also affected by $17 million of closure costs.

TABLE 5. SHIPMENTS OF VALUE-ADDED GROUNDWOOD PAPERS

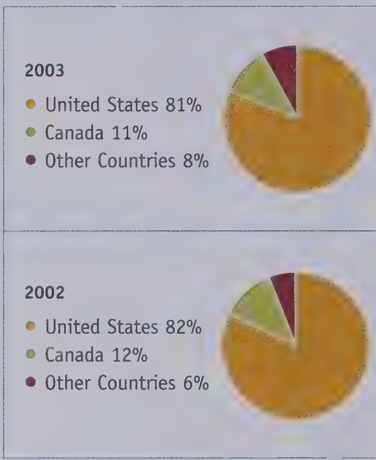
In thousands of tonnes

	2003	2002
SC, Soft-Nip papers	733	728
Alternative and *Equal Offset®* & hi-brite papers	691	645
Directory papers	132	129
Specialty papers	185	187
Total paper	1,741	1,689
Market pulp	69	81
Total segment	1,810	1,770

The average mill net for value-added groundwood papers declined 11% to $771 per tonne in 2003 compared to the previous year. The Company's shipments of value-added groundwood papers totalled 1,810,000 tonnes in 2003, compared to 1,770,000 tonnes in 2002.

The Company's cost of value-added groundwood papers sold remained flat in 2003 compared with the previous year. The impact of the stronger average Canadian dollar on the manufacturing costs of the U.S. mill as well as the lower usage of supplies and chemicals were partly offset by higher fibre and energy prices.

DISTRIBUTION OF VALUE-ADDED GROUNDWOOD PAPERS SALES



ABIcal™ grades (Supercalendered ("SC") and Soft-Nip)

According to PPPC, North American shipments of glossy grades increased by 5.9% in 2003. Glossy grades are mainly used in retail inserts, catalogues and magazines. Shipments of the Company's *ABIcal™* grades increased by 12% compared to 2002. According to an industry publication, prices for supercalendered (SCA) grades declined an average of 10% through the year in 2002. In 2003, prices were flat for the first half of the year and started to increase to end the year at 6% higher than December 2002.

The Company believes that demand, driven by an improvement in advertising expenditures and retail sales, should continue to improve in 2004 along with the economy. However, the recent idling of the Lufkin mill will impact the Company's shipments of these grades.

ABIoffset™ and ABIbrite™ grades

The Company continues to achieve success with its *ABIoffset™* grades, which consist of *Alternative Offset®* and *Equal Offset®* grades. Shipments of *ABIoffset™* grades have increased by 9% in 2003. The Company is on track to increase capacity in these grades this year through its Alma paper mill investment. The project is on schedule for a start-up in the second quarter of 2004 ramping up to *Equal Offset®* grade in the second half of 2004.

According to an industry publication, prices for uncoated freesheet increased an average of 4% through 2002. In 2003, prices started declining through the year to end at 14% lower than December 2002.

Market outlook

The outlook for 2004 remains positive for all non-glossy grades. The Company will continue to penetrate new markets with its *ABIoffset™* grades and increased advertising expenditure will benefit demand for the hi-brite grades. The directory market is expected to remain flat with no evident threats from electronic substitution.

Change in capacity

On December 10, 2003, the Company announced the continuation of its focused downtime strategy by indefinitely idling the Company's Lufkin and Port-Alfred paper mills, as of December 14, 2003. Table 2 under **Rationalization/Conversion of Newsprint Capacity** presents the affected capacity as of December 31, 2003.

On December 11, 2002, the Company announced the conversion of the newsprint machine at its mill in Alma to produce *Equal Offset®* paper. The machine is scheduled to start up in the second quarter of 2004 ramping up to *Equal Offset®* paper in the second half of 2004. The machine will have an annual production capacity of 230,000 tonnes of *Equal Offset®* paper.

WOOD PRODUCTS

On March 22, 2002, the U.S. Department of Commerce (USDOC) issued its final determinations and imposed CVD of 19.34%, subsequently revised to 18.79%, and Company-specific AD of 14.6%, subsequently revised to 12.44%, on Canadian softwood lumber imports. The USDOC also determined that there was no condition of Critical Circumstances. In accordance with U.S. law, the Company posted bonds to secure the CVD/AD assessed in respect to the Company's net sales of softwood lumber to the U.S. until May 5, 2002.

On May 22, 2002, the USITC "determined that an industry in the United States is threatened with material injury by reason of imports from Canada of softwood lumber" and also "determined that it would not have found material injury". Consequently and effective on the same date, this determination confirmed the CVD of 18.79% and Company-specific AD of 12.44% on Canadian softwood lumber imports but with no retroactive effect.

On September 27, 2002, the World Trade Organization (WTO) rendered its preliminary decision on the CVD imposed by the USDOC on softwood lumber imported from Canada, in which it ruled in Canada's favour.

On July 17, 2003, a North American Free Trade Agreement (NAFTA) panel issued its decision on the AD, ordering the USDOC to recalculate its flawed determination of duties on individual Canadian companies. On August 13, 2003, a NAFTA panel issued its decision on the CVD, ruling that the method used by the USDOC to measure the benefit of the alleged subsidies was contrary to law. On September 5, 2003, a NAFTA panel rejected all major arguments brought by the USITC to justify the "threat of injury to a U.S. industry". If the "threat of injury to a U.S. industry" is not proven, there is no justification to impose CVD or AD.

On August 29, 2003, a WTO panel issued its final report on the CVD issue confirming the earlier decision that ruled largely in Canada's favour. On January 19, 2004, the WTO Appellate Body ruled that USDOC's benefit measurement methodology could be used in certain limited circumstances, but said it did not have sufficient information to rule on the appropriateness or specifics of USDOC's calculations in this case.

On December 6, 2003, Canada and the United States came up with a framework to settle the softwood lumber dispute. The proposal, which was not accepted, could have terminated both CVD and AD to return to a quota allocation system. The Company continues to believe that stability will only return to the lumber market once the dispute is resolved.

On January 13, 2004, the USDOC, following the NAFTA panel order dated August 13, 2003, released its revised CVD deposit rate of 13.23% compared to the current rate of 18.79%. If this revised rate is confirmed by the NAFTA panel, it would only take effect upon completion of the appeal mechanism, which could occur in the second quarter of 2004 at the earliest.

The CVD/AD rates noted above are deposit rates for estimated duties. Actual duty assessment rates are determined in annual reviews, which the USDOC initiated on July 1, 2003. The USDOC is expected to issue preliminary results around June 1, 2004, and final results by the fourth quarter of 2004. Based on normal shipment patterns, the impact of every 1% increase or decrease in CVD or AD represents a change of approximately $1.8 million to net earnings annually.

The Company has paid and expensed in 2003 an amount of $77 million for CVD/AD, compared to $44 million for the period from May 22, 2002 to December 31, 2002.

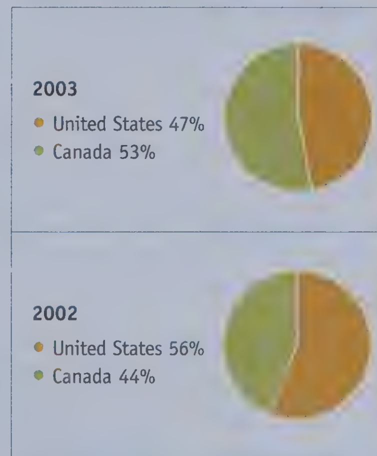
Operating results

Net sales of wood products decreased to $585 million in 2003, compared to $666 million in 2002. The reduction in net sales is mainly attributable to a stronger average Canadian dollar and the increased charge of CVD/AD, partly offset by higher average U.S. dollar transaction prices year-over-year and higher sales volume. As a result, the average mill net for wood products decreased to $303 per thousand board feet in 2003, compared to $378 per thousand board feet in 2002. The Company's shipments totalled 1,930 million board feet in 2003, compared to 1,759 million board feet in 2002.

Operating loss from continuing operations was $86 million, or 14.7% of net sales in 2003, compared to an operating profit from continuing operations of $46 million, or 6.9% of net sales in 2002. Other than the elements mentioned in the previous paragraph, operating results from continuing operations were also affected by a charge of $77 million for CVD/AD in 2003, compared to a charge of $26 million net of the provision reversal in 2002, as well as a 2003 goodwill impairment charge of $21 million representing the total goodwill for the wood products segment.

Cost of products sold in the Company's wood products segment decreased by 5% compared to 2002, mainly due to higher wood chips revenue, which is accounted for as a reduction in manufacturing costs, and better operating efficiency partly offset by higher labour and energy costs.

DISTRIBUTION OF WOOD PRODUCTS SALES



Engineered wood

The 50-50 joint venture formed by Abitibi-Consolidated and Louisiana-Pacific Canada Ltd to produce solid-sawn flooring I-joists began production in May of 2003, reaching commercial production in the third quarter as expected. The current annual production capacity of the mill stands at 70 million linear feet.

Lumber market

Demand in the United States remained strong throughout the year with housing starts remaining above an annualized rate of 1.6 million units during each month of 2003 and reaching an annualized rate of 2.09 million units in December 2003. Demand in Canada continued to be strong as well, with housing starts remaining above an annualized rate of 200,000 units for most of the year. Housing starts in Japan increased by approximately 4% in 2003, positively impacting the Company's 2x4 "J grade" products, sold through Canadian distributors.

Published lumber prices (f.o.b. Great Lakes) in North America remained flat in the first half of 2003 compared to the second half of 2002. Prices increased in the second half of

TABLE 6. SUMMARY OF QUARTERLY RESULTS
In millions of dollars, except per share amounts

	2003				2002			
	Q-4	Q-3	Q-2	Q-1	Q-4	Q-3	Q-2	Q-1
	$	$	$	$	$	$	$	$
Net sales	1,208	1,176	1,210	1,192	1,316	1,284	1,327	1,195
Operating profit (loss) from continuing operations	(210)	(31)	(46)	(35)	18	29	94	41
Earnings (loss) from continuing operations	(77)	(69)	147	181	25	(215)	200	(57)
Earnings (loss) from continuing operations per share	(0.18)	(0.16)	0.34	0.41	0.06	(0.49)	0.45	(0.13)
Net earnings (loss)	(80)	(69)	147	181	29	77	203	(50)
Net earnings (loss) per share	(0.18)	(0.16)	0.34	0.41	0.07	0.17	0.46	(0.11)

2003 mainly due to the steady healthy demand in the United States and supply uncertainty resulting from forest fires in British Columbia. Prices were also influenced by the reduction of imports from non-Canadian sources due to the weakening U.S. dollar. Pricing in Japan bottomed in the second quarter, showing strength by year-end with the 2x4 "J grade" prices up 20% compared to January of 2003.

The Company expects housing starts to remain high in 2004 but to be slightly lower than the previous year due to the historically high levels of 2003.

FOURTH QUARTER ANALYSIS

Abitibi-Consolidated reported a loss of $80 million, or 18 cents a share, in the fourth quarter ended December 31, 2003 compared to net earnings of $29 million, or 7 cents a share, in the same quarter of 2002. The weighted average number of shares outstanding remained constant at 440 million during these periods.

Net sales were $1,208 million in the fourth quarter of 2003 compared to $1,316 million in the fourth quarter of 2002. The operating loss from continuing operations was $210 million in the fourth quarter of 2003 compared to an operating profit from continuing operations of $18 million for the fourth quarter of 2002.

Lower operating income from continuing operations in the fourth quarter of 2003 resulted mainly from the provision for closure costs and asset write-offs announced on December 10, 2003 and the goodwill impairment charge in the wood products segment. The stronger Canadian dollar, lower selling prices for value-added groundwood papers and lower newsprint sales volume also negatively impacted operating income from continuing operations. These factors were partially offset by higher newsprint prices in North America, lower newsprint and value-added groundwood paper cost of goods sold and better performance in wood products, which saw higher prices and sales volume as well as lower cost of goods sold.

The Company recorded in the quarter an after-tax gain of $130 million on the translation of foreign currencies, derived primarily from its U.S. dollar debt compared to $25 million in the same quarter of 2002. Results in the fourth quarter of 2003 also included an unfavourable income tax adjustment of $10 million compared to a favourable income tax adjustment of $42 million in 2002.

In the quarter, the Company announced the indefinite idling of the Lufkin and Port-Alfred paper mills, resulting in a provision for closure costs of $67 million and recorded asset write-offs of $67 million following the permanent closure of two previously idled paper machines, one in Port-Alfred and one in Sheldon. In the fourth quarter of 2002, following the closure of the Thorold thermomechanical pulp mill, the Company wrote off its remaining book value of $12 million.

In the fourth quarter of 2003, the Company performed the required annual goodwill impairment test and found that impairment did exist in its wood products segment mainly as a result of economic market conditions and a strong Canadian dollar. Consequently, an amount of $21 million representing all the goodwill associated with the wood products segment was recorded as an impairment charge in the quarter.

Financial expenses increased by $2 million compared to the fourth quarter of 2002, primarily because of $11 million in interest earned on a favourable litigation settlement in 2002. This is partly offset by lower interest rates and the impact of a stronger Canadian dollar.

For a more extensive analysis of the quarter, please refer to the fourth quarter 2003 MD&A dated January 27, 2004.

SUMMARY OF QUARTERLY RESULTS

On a quarterly basis, net sales were negatively impacted by the strength of the Canadian dollar compared to the U.S. currency going from an average of US$0.627 in the first quarter of 2002 to US$0.637 in the fourth quarter of 2002 and US$0.76 in the fourth quarter of 2003. This represents a 19% strengthening of the Canadian dollar in one year, partly offset by newsprint price increases.

The Company's operating profit from continuing operations turned to a loss position in 2003 mainly because of the strength of the Canadian dollar compared to the U.S. currency. In the second quarter of 2002, Abitibi-Consolidated reversed an amount of $32 million for excess CVD/AD that had been provided for in previous quarters. In the fourth quarter of 2003, operating results were negatively impacted by $67 million for closure costs, $67 million for asset write-offs and $21 million for goodwill impairment.

Other than the elements mentioned above, the major element that affected the Company's net earnings (loss) is the loss (gain) on translation of foreign currencies, mainly due to the strengthening Canadian dollar compared to the U.S. currency and its impact on the Company's debt denominated in U.S. dollars. (See Table 6)

The weighted average number of shares outstanding remained constant at 440 million during these periods.

Financial Position and Liquidity

The Company's cash and cash equivalents at the end of 2003 amounted to $53 million, a reduction of $93 million compared to $146 million at the end of 2002. In 2003, Abitibi-Consolidated generated $61 million of cash from continuing operating activities and $179 million of cash from financing activities of continuing operations while it used $312 million of cash for investing activities of continuing operations. The major cash contribution during 2003 came from operating working capital, more specifically accounts receivable.

TABLE 7. COVENANTS

Debt to Equity Ratio:	
Net Funded Debt to Total Capitalization	70% or lower
Interest Coverage Ratio (on a trailing 12-month basis):	
1.25 times or more	For the second quarter of 2003
1.00 time or more	For the third and fourth quarter of 2003
1.25 times or more	For the first and second quarter of 2004
1.50 times or more	For the third and fourth quarter of 2004
2.00 times or more	For 2005

CONTINUING OPERATING ACTIVITIES

Cash generated from continuing operating activities totalled $61 million in 2003, compared to $243 million in 2002. The reduction in cash generated by operating activities was mainly due to the reduction in operating profit from continuing operations partly offset by the reduction of $158 million in non-cash operating working capital in 2003 compared to an increase of $66 million in 2002. The reduction in non-cash operating working capital in 2003 is mainly due to a reduction in accounts receivable and inventories, partly offset by a reduction of accounts payable and accrued liabilities.

FINANCING ACTIVITIES OF CONTINUING OPERATIONS

Cash generated from financing activities of continuing operations totalled $179 million in 2003, compared to the utilization of $551 million in 2002. The increase of cash generated was mainly due to the increase of long-term U.S. dollar debt in 2003 compared to a reduction in 2002 and the reduction of dividends paid.

In the third quarter of 2002, the Company bought back all of its outstanding US$150 million 9.125% senior notes resulting largely from the proceeds of the Saint-Félicien divestiture. At December 31, 2003, the available liquidities were $635 million excluding cash of $53 million.

Long-term debt, including the current portion, amounted to $4,958 million at December 31, 2003, representing a ratio of net debt to capitalization of 0.618 compared to $5,633 million and a ratio of 0.635 at December 31, 2002. The decrease in long-term debt is mainly due to the positive impact of the strengthening year-end Canadian dollar on U.S. dollar denominated debt. This reduction is partly offset by the consolidation of 100% of the Alabama joint venture's debt in the amount of $126 million as at January 1, 2003.

On June 18, 2003, Abitibi-Consolidated issued US$150 million 5.25% notes due 2008 and US$350 million 6% notes due 2013. The net proceeds from the offering were used to repay outstanding debt under existing credit facilities. As a result, the total debt of the Company remained at the same level. In connection with the offering, the Company and its lenders have agreed to merge the Company's $500 million 364-day and $300 million multi-year revolving credit facilities and to reset the maturity dates to June 30, 2005, from December 17, 2003, and December 30, 2005 respectively. The new revolving credit facility has substantially the same terms and conditions as in the prior agreement, except for certain amendments, providing the Company with increased financial flexibility. These amendments became effective upon completion of the offering. They include changes to the net funded debt to capitalization ratio and to the interest coverage ratio as shown in Table 7. The required interest coverage ratio is essentially EBITDA to net interest charges on a trailing 12-month basis.

On February 18, 2003, Standard and Poor's, one of the three rating agencies that cover the Company's debt instruments, lowered its rating from BBB- with negative outlook to BB+ with a stable outlook. The same rating agency revised the outlook to negative from stable on October 27, 2003. On October 17, 2003, Moody's placed the Ba1 debt rating

of the Company under review for possible downgrade. On November 4, 2003, DBRS downgraded the debt rating of the Company to BB (high) from BBB (low). The trend changed to stable from negative. Finally, on February 20, 2004, Moody's lowered its rating to Ba2 with negative outlook.

INVESTING ACTIVITIES OF CONTINUING OPERATIONS

The Company used $312 million of cash from investing activities of continuing operations in 2003 and generated $200 million in 2002. In 2003, Abitibi-Consolidated used $262 million for capital expenditures compared to $214 million in 2002. The Company generated $460 million from the divestiture of the Saint-Félicien mill in 2002. Construction payables included in capital expenditures increased by $21 million in 2003 compared with a decrease of $5 million in 2002 mainly due to the Alma conversion.

Major projects included the completion of the new thermomechanical pulp plant in Baie-Comeau, Québec ($4 million in 2003 and $37 million in 2002), the Alma conversion ($105 million in 2003) and the beginning of the China machine project ($10 million in 2003). In the first quarter of 2003, the Company completed the TMP modernization project at the Baie-Comeau mill. The project was completed within budget and started up slightly ahead of expectations. The $181 million project to convert the newsprint machine at the Alma mill to the *Equal Offset*® grade began in the first quarter of 2003. The project is both on budget and on schedule for a start-up in the second quarter of 2004 ramping up to *Equal Offset*® paper in the second half of 2004. In 2002, Abitibi-Consolidated approved the modernization of its hydro-electric generating facilities at Iroquois Falls, Ontario. This project is also progressing both on budget and on schedule for a start-up in July of 2004. Engineering work for the China machine project has started and construction will begin during the first quarter of 2004. The remainder of the capital expenditures was mainly related to asset maintenance.

The Company intends to limit its capital expenditure program in 2004 to below $300 million excluding its portion of the capital expenditures of the PanAsia joint venture.

The Company intends to continue to maintain a disciplined capital expenditure program and apply free cash flows towards the reduction of debt.

BUSINESS ACQUISITION AND DISPOSAL

As discussed earlier, in August 2002, the Company sold its northern bleached softwood kraft (NBSK) pulp mill located in Saint-Félicien to a member of a group of entities controlled by SFK Pulp Fund (collectively, SFK) for a total consideration valued at $693 million. The consideration consisted of $544 million in cash and some working capital elements as well as a 25% interest through a holding of class "B" units. The Company realized a pre-tax gain of $364 million on disposal of 75% of the pulp mill. More information is presented in Note 3 of the consolidated financial statements.

2002 COMPARED TO 2001

Net sales totalled $5,122 million in 2002 compared to $5,811 million in 2001. The Company's decrease in net sales was mainly attributable to lower prices for newsprint and value-added groundwood papers, partly offset by higher sales volume in all segments, primarily in the newsprint business due to the acquisition of an additional 16.67% ownership of PanAsia in August of 2001.

The loss from continuing operations amounted to $47 million in 2002, or $0.11 per share, compared to net earnings from continuing operations of $70 million in 2001, or $0.16 per share. The reduction of $117 million in earnings from continuing operations resulted mainly from lower operating profit from continuing operations of $783 million. This factor was partly offset by lower financial expenses of $26 million, a gain of $54 million on translation of foreign currencies compared to a loss of $265 million in 2001, an income tax recovery of $181 million in 2002 compared to an expense of $84 million in 2001 and the elimination in 2002 of goodwill amortization of $40 million.

The Company posted net earnings of $259 million in 2002, or $0.59 per share, compared to $106 million in 2001, or $0.24 per share. In 2002, the Company sold its Saint-Félicien pulp mill and realized an after-tax gain of $293 million.

The Company's cash and cash equivalents at the end of 2002 amounted to $146 million, a reduction of $62 million compared to $208 million at the end of 2001. In 2002, Abitibi-Consolidated generated $243 million of cash from continuing operating activities, $51 million of cash from discontinued operations and $200 million of cash from investing activities of continuing operations while it used $551 million of cash for financing activities of continuing operations. The major cash transactions during 2002, excluding cash from operations, payment of dividends and capital expenditures, were the debt reduction and the divestiture of the Saint-Félicien pulp mill.

TABLE 8. SELECTED ANNUAL INFORMATION
In millions of dollars, except as noted

	2003	2002	2001
	$	$	$
Net sales	**4,786**	5,122	5,811
Operating profit (loss)			
from continuing operations	**(322)**	182	965
Earnings (loss) from continuing operations	**182**	(47)	70
Earnings (loss) from continuing			
operations per share	**0.41**	(0.11)	0.16
Net earnings	**179**	259	106
Net earnings per share	**0.41**	0.59	0.24
Total assets	**10,185**	11,144	11,468
Total long-term liabilities	**5,661**	6,529	6,993
Cash dividends declared per share	**0.175**	0.400	0.400
Exchange rates (CDN$1= US$):			
Closing exchange rate at year-end	**0.771**	0.634	0.628
Average noon rate for the year	**0.714**	0.637	0.646

Selected Annual Information

Net sales were negatively impacted mainly by lower average prices in almost all segments of the Company. The strengthening of the Canadian dollar compared to the U.S. currency in 2003 also contributed to the downward trend going from an average of US$0.637 in 2002 to US$0.714 in 2003. (See Table 8)

The Company's operating profit from continuing operations turned to a loss position in 2003 mainly because of the strength of the Canadian dollar compared to the U.S. currency. In 2003, operating results were negatively impacted by $67 million for closure costs, $67 million for asset write-offs and goodwill impairment of $21 million.

Other than the elements mentioned above, the major factor that affected the Company's net earnings is the gain on translation of foreign currencies, mainly due to the strengthening Canadian dollar and its impact on the Company's debt denominated in U.S. dollars.

The downward trend in total assets and total long-term liabilities is mainly caused by the strengthening of the Canadian dollar compared to the U.S. currency going from a rate of US$0.628 at the end of 2001 to US$0.634 at the end of 2002 and to US$0.771 at the end of 2003.

The weighted average number of shares outstanding remained constant at 440 million during these periods.

In the second quarter of 2003, the Company's Board of Directors made the decision to reduce the quarterly dividend from $0.10 per share to $0.025 in light of market and currency exchange conditions.

Other Noteworthy Events

On February 10, 2004, the Company announced the sale of its remaining 25% interest in SFK Pulp Fund for gross proceeds of $118.5 million. Net proceeds will be used towards the repayment of certain outstanding debt and for general corporate purposes. The transaction closed on February 27, 2004.

On January 22, 2004, the Communications, Energy and Paperworkers Union of Canada (CEP) selected Abitibi-Consolidated as the pattern-setting employer in the upcoming negotiations in Eastern Canada for a new collective agreement. Over the past few years, the Company has sought to strengthen its partnership with its employees and union leaders so as to create a collaborative working atmosphere. Substantial work has been done on issues key to both parties in preparation for future in-depth discussions at the negotiating table. In order to promote a positive and productive approach to the 2004 negotiations, the CEP and the Company will be conducting negotiations prior to the expiration of collective agreements, to resolve local issues involving individual mills as well as major issues impacting all divisions. As announced by the Union, these major issues include the duration of the collective agreement, wages, benefits, pension plan and job security.

On November 27, 2003, the Company and World Wildlife Fund Canada (WWF-Canada) announced that they were joining forces on a new forestry conservation project. Abitibi-Consolidated and WWF-Canada will work in partnership to identify high conservation value forests (HCVF) within specific Abitibi-Consolidated woodlands in Canada.

On November 17, 2003, Abitibi-Consolidated announced that its paper recycling program Paper Retriever® is now available in five additional Mid-Western U.S. cities. The launch of this program in these locations will increase internal supply of recycled paper to the Company.

On June 26, 2003, Nature Conservancy of Canada and Abitibi-Consolidated announced the creation of a new protected area at the Lloyd's River Escarpment in Central Newfoundland. The 768-hectare (1,897-acre) gift of wilderness property from Abitibi-Consolidated will provide critical habitat for the endangered Newfoundland pine marten as well as greater sanctuary for the declining population of the Canada lynx.

On June 16, 2003, the Company implemented a Small Shareholder Selling Program that enabled registered and beneficial shareholders who own 99 or fewer common shares of Abitibi-Consolidated to sell their shares without incurring any brokerage commissions. The voluntary program expired on November 28, 2003. The number of participating shareholders reached almost four thousand out of approximately nine thousand for a participation rate of 41%.

Since January 1, 2003 and up to June 30, 2005, Abitibi-Consolidated has an option to purchase its partner's 50% interest in Alabama River Newsprint Company and Alabama River Recycling Company

(Alabama joint venture) at a predetermined nominal amount. Because of this option, in accordance with GAAP, the Company is deemed to control the Alabama joint venture. Consequently, Abitibi-Consolidated has included the Alabama joint venture's complete financial results, assets and liabilities in its consolidated financial statements as of that date, adding US$61 million of debt to its balance sheet as at December 31, 2003 compared to US$80 million as at January 1, 2003.

In December 2001, the Canadian Competition Bureau appointed a sales agent to attempt to find a buyer for the Port-Alfred newsprint mill. This appointment was made pursuant to a previous agreement between the Company and the Bureau further to the Donohue acquisition. The sales agent could not complete the divestiture of Port-Alfred within the allowed time period. The Bureau then conducted an inquiry on the sale process. In the second quarter of 2003, the Bureau closed its file.

On September 19, 2001, the Company entered into a partnership (Exploits River Hydro Partnership) with Central Newfoundland Energy Inc., a non-regulated subsidiary of Fortis Inc., to further develop hydroelectric potential in Newfoundland. Abitibi-Consolidated holds a 49% interest in the partnership. The project has been completed, commissioned and received final approval from Newfoundland and Labrador Hydro. Exploits River Hydro Partnership is supplying power to the provincial grid under a long-term contract agreement to the utility.

Risks and Uncertainties

PRICES

Paper prices are tied to the health of the economies of North and South America, Asia and Europe, as well as to paper inventory levels in these regions. Continued difficult economic conditions in 2003 limited the North American growth in advertising spending and paper consumption.

Paper prices are also tied to variances in production capacity. The Company believes that increases in worldwide newsprint capacity are at historical low levels.

The Company expects a moderate improvement in the general market environment for newsprint and value-added groundwood papers in 2004, arising from an economic recovery in North America and in Europe, combined with the absence of significant new capacity in North America.

FOREIGN EXCHANGE

The Company's principal paper markets are outside Canada and therefore exposure to the U.S. dollar is a risk to its business. In 2003, approximately 71% of the net revenues and 17% of manufacturing costs of the Company's operations, excluding PanAsia, are in U.S. dollars. The U.S. dollar exposure may therefore cause volatility in the Company's cash flows, earnings and debt.

The Company's foreign exchange program includes partial hedging of U.S. dollar and other currencies cash flows. The Company also borrows most of its long-term debt in U.S. dollars and this debt constitutes an effective partial economic hedge on future U.S. dollar cash flows.

SOFTWOOD LUMBER DISPUTE

Since the end of the five-year softwood lumber agreement between Canada and the United States in March 2001, the USDOC has instituted CVD/AD investigations. In 2002, "final determinations" were issued by the U.S. government and duties have been imposed at rates of 18.79% for CVD and 12.44% for the Company-specific AD calculated on the net sales of the Company's lumber shipped to the United States. The USDOC has started to conduct retrospective annual reviews to determine the actual amounts of CVD/AD owed. The final results of these reviews are expected in the fourth quarter of 2004. The difference between the amounts paid and owed would then be refundable to or payable by the Company, with interest.

As a company with global manufacturing operations, Abitibi-Consolidated believes free and open trade is critical to maintain global competitiveness and remains confident that lower duty rates, if any at all, will prevail in the final determination.

Based on normal shipment patterns, the impact of every 1% increase or decrease in CVD/AD represents a change of approximately $1.8 million to net earnings annually.

FIBRE SUPPLY

Fibre represents the Company's major raw material in the production of wood products, paper and pulp. The Company uses both virgin fibre (wood chips and logs) and recycled fibre (old newspapers and magazines) as fibre sources for its paper mills.

The virgin fibre supply required by the Company in Canada is mostly assured by agreements with provincial governments. The agreements are granted for various terms, from 5 to 25 years, and are generally subject to regular renewal every 5 years. They incorporate commitments with respect to sustainable forest management, silvicultural work, forest and soil renewal as well as cooperation with other forest users. The Company believes that it is in material compliance with all forest regulations.

Wood chips supplied from the Company's sawmills together with fibre exchanges with independent sawmills, as well as long-term contracts with third parties are conducted at market prices and represent approximately 88% of the Company's Canadian pulp and paper mills' virgin fibre requirements.

Virgin fibre in the United States is obtained through the Company's private timberlands and long-term supply contracts.

The Company is the largest North American consumer of old newspapers and magazines. The Company is involved in the recovery of old paper and has contracts with numerous recyclers, waste haulers and brokers in countries where its mills are located. The Company's own recovery network, excluding PanAsia, accounts for 39% of its recycled fibre needs.

The Company believes that the balance of fibre supply between its internal sources and the open market is more than adequate to support its wood products, paper and pulp production requirements.

ENERGY

In its manufacturing processes, the Company consumes a large volume of natural gas and bunker 'C' oil. Compared to 2002, North American index prices for these two commodity products increased by approximately 60% and 20% respectively in 2003. These increases were partially offset by a stronger Canadian dollar and by an overall reduction in usage. The Company also manages the flexibility that some of the paper mills have to switch energy sources depending upon which source is more advantageous.

In May 2002, the power market in the province of Ontario was deregulated. The impact of deregulation in Ontario on the Company has been mitigated by its ability to self-generate power in some of its facilities and by signing fixed price supply contracts.

In 2003, the Company began the implementation of a corporate energy procurement policy. The goals of the policy are to reduce the volatility in energy costs to the Company and to establish and maintain cost levels that are acceptable to its business needs.

LABOUR

The Company has several contracts with unionized employees. Some of these contracts expire on April 30, 2004 and cover twelve of its paper mills, two in Newfoundland, five in Québec and five in Ontario.

As mentioned in the section **Other Noteworthy Events**, on January 22, 2004, the Communications, Energy and Paperworkers Union of Canada (CEP) selected Abitibi-Consolidated as the pattern-setting employer in the upcoming negotiations in Eastern Canada for a new collective agreement.

The Company believes that its labour relations are good and does not anticipate labour disruptions in its operations.

ENVIRONMENT

The Company is subject to environmental laws and regulations relating to forest management, air emissions, wastewater discharge, waste management and landfill sites. The Company believes that it is in material compliance with all laws and regulations governing its activities and that the only foreseeable significant capital expenditure in 2004-2005 will be some modifications to its effluent treatment at its Grand Falls mill and its air emission equipment at the Grand Falls and Stephenville, Newfoundland mills.

The Company conducts environmental compliance audits, generally performed by internal auditors, which cover all the Company's paper and lumber sites over a defined schedule of time. The Company has implemented Environmental Management Systems in most of its operations.

The Company has implemented a certification process of its Environmental Management Systems, under the International Standards Organization (ISO) for its pulp and paper mills, sawmills, and woodlands operations. By the end of 2003, the majority of the Company's operations were certified ISO 14001.

With respect to the Company's commitment to obtain the sustainable forest management certification for its North American operations by the end of 2005, the progress made to date is within expectations. The Company also concluded, in 2003, a high-conservation-value forest agreement with World Wildlife Fund.

PRICE AND EXCHANGE RATE SENSITIVITY

The Company's pre-tax earnings from continuing operations, net earnings from continuing operations and diluted earnings from continuing operations per share are impacted by fluctuations in selling prices and foreign exchange to the extent shown in Table 9.

TABLE 9. 2004 SENSITIVITY ANALYSIS

In millions of dollars, except per share amounts

Based on financial hedges in place as at December 31, 2003, and on budgeted volumes, prices and exchange rates.

	Impact on		
	Pre-tax earnings	Net earnings	Earnings per share
	$	$	$
US$25 change in transaction price – per unit			
Newsprint (1)	158	108	0.24
Value-added groundwood papers (1)	57	39	0.09
Wood products (2)	72	49	0.11
Foreign exchange (3)			
US$0.01 change in relative value to the Canadian dollar			
Cash impact	26	18	0.04
Translation of foreign currencies	60	49	0.11

(1) per tonne
(2) per thousand board feet
(3) translation of foreign currencies will impact earnings inversely to cash

TABLE 10. PRODUCTION CAPACITY

Newsprint[1]	5,476 Thousand tonnes
Value-added groundwood papers[1]	2,039 Thousand tonnes
Market pulp	87 Thousand tonnes
Lumber and other wood products	2,352 Million board feet
I-joists	35 Million linear feet

(1) includes currently idled capacity (see Table 2)

Outlook

The Company is a major global low-cost producer and marketer of newsprint and value-added groundwood papers with interests in operations in Canada, the United States, the United Kingdom, South Korea, China and Thailand. It is also one of the major lumber producers in North America.

After taking into consideration machine start-ups, closures and conversions completed in 2003, the Company's production capacity, at the beginning of 2004, is as shown in Table 10.

The Company believes, considering economists' forecasts for growth in the U.S. economy during the year, that newsprint markets will moderately improve in 2004.

The Company expects the market for value-added groundwood papers will improve as advertising expenditures and retail sales continue to recover in 2004 along with the economy.

The Company intends to limit its capital expenditure program in 2004 at below $300 million excluding its portion of the capital expenditures of the PanAsia joint venture. The Company also intends to apply free cash flows toward the reduction of long-term debt.

Forward-Looking Statements

Certain statements contained in this MD&A and in particular the statements contained in various outlook sections, constitute forward-looking statements. These forward-looking statements relate to the future financial condition, results of operations or business of the Company. These statements may be current expectations and estimates about the markets in which Abitibi-Consolidated operates and management's beliefs and assumptions regarding these markets. These statements are subject to important risks and uncertainties which are difficult to predict and assumptions which may prove to be inaccurate. The results or events predicted in the forward-looking statements contained in this MD&A may differ materially from actual results or events. Some of the factors, which could cause results or events to differ materially from current expectations, are discussed under the section **Risk and Uncertainties** and other cautionary factors are outlined elsewhere in this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. In particular, forward-looking statements do not reflect the potential impact of any mergers, acquisitions or other business combinations or divestitures that may be announced or completed after such statements are made.

Financial Instruments and Other Instruments

In the normal course of business, the Company is exposed to certain financial risks. The Company does not hold financial instruments for speculative purposes but only to reduce the volatility of its results from its exposure to these risks. The market value of financial instruments contracted by the Company arises mostly from changes in interest and exchange rates between the inception dates of these contracts and the balance sheet date. More information on financial instruments is presented in note 21 of the consolidated financial statements.

FOREIGN EXCHANGE

The Company uses various financial instruments such as U.S. dollar forwards as well as U.S. dollar and euro zero cost option tunnels, to reduce its exposure to foreign currency exchange risk. The Company's sales, excluding PanAsia, denominated in U.S. dollars and euros represent 71% and 5% of total sales respectively. The foreign exchange financial contracts only hedge a portion of the sales. This portion declines as the hedge horizon increases. These hedges are all due to mature within the next two years. The gains and losses on foreign exchange contracts are recognized in earnings when the related hedged revenue is recorded.

Furthermore, the long-term debt expressed in U.S. dollars is also considered an effective economic hedge against the exchange risk related to the future revenue streams originating from sales denominated in U.S. dollars.

INTEREST RATE

At year-end, 73% of the Company's recourse debt was at fixed rates. The Company uses interest rate swap agreements to increase the floating interest rate mix of its recourse debt portfolio. The interest rate contracts are only for a portion of the Company's bond portfolio and mature in the years 2005 through 2010.

Interest expense on the debt is adjusted to include payments made or received under these agreements. The net related amount receivable from counterparts is included in accounts receivable.

TABLE 11. SUMMARY OF CONTRACTUAL OBLIGATIONS
In millions of dollars

	Total commitments by period					Non-recourse
	Total commitments	Within 1 year	1 – 3 years	4 – 5 years	After 5 years	For information only
	$	$	$	$	$	$
Long-term debt	4,955	314	1,117	813	2,711	479
Capital leases	3	3	–	–	–	3
Operating leases	72	20	25	12	15	1
Purchase obligations	119	119	–	–	–	62
Total contractual obligations	**5,149**	**456**	**1,142**	**825**	**2,726**	**545**

TABLE 12. TRANSACTIONS WITH RELATED PARTIES
In millions of dollars

	2003	2002
	$	$
Fibre sales	92	36
Purchases of market pulp	25	13
Accounts receivable from SFK GP	2	5

CREDIT RISK

The Company is exposed to credit risk on the accounts receivable from its customers. In order to manage its credit risk, the Company has adopted policies, which include the analysis of the financial position of its customers and the regular review of their credit limits. The Company also subscribes to credit insurance and, in some cases, requires bank letters of credit. As a result, the Company does not have significant exposure to any individual customer. Its customers are mainly in the newspaper publishing, commercial printing, advertising and paper converting as well as lumber wholesaling and retailing businesses.

The Company is exposed to credit risk on the favourable fair value of its derivative financial instruments. In order to mitigate this risk, the Company contracts its derivative financial instruments with credit worthy financial institutions.

Contractual Obligations

The Company has operating leases and other commitments entered into in the normal course of business. These commitments, which are not accounted for on the Company's consolidated balance sheet, are described in note 22 of the consolidated financial statements.

Table 11 presents contractual agreements that are enforceable and are legally binding on the Company. Consequently, all recourse and non-recourse obligations to the Company have been included in the total commitments. The non-recourse information is also shown separately.

Abitibi-Consolidated has long-term debt with contractual maturities as described in note 18 of the consolidated financial statements.

Purchase obligations are entirely composed of capital expenditures. At the end of 2003, the Company's portion of PanAsia's firm commitments was US$48 million related to the China machine project. The Company had direct commitments of $33 million related to the Alma conversion and $24 million related to the modernization of its hydroelectric generating facilities in Iroquois Falls.

Off-Balance Sheet Arrangements

The Company has ongoing programs to sell up to US$500 million of accounts receivable, with minimal recourse, to major financial institutions. Under these programs, the outstanding balance in Canadian dollars, as at December 31, 2003 was $504 million compared to $472 million at December 31, 2002.

Transactions with Related Parties

As at December 31, 2003, the Company owned an interest of 25% in SFK GP. Historically, the Company supplied all the required fibre to the Saint-Félicien mill to produce market pulp. SFK GP has a 20-year fibre supply agreement with the Company. Subject to certain conditions, the price of fibre payable by SFK GP will be tied to the price of pulp for the first 740,000 tonnes of fibre per year. Also, the Company has agreed to purchase some market pulp from SFK GP. These transactions are in the normal course of operations and have been carried out on the same terms as would have applied with unrelated parties and were accounted for at the exchange value, except the fibre sales as mentioned previously.

Changes in Accounting Policies

ADOPTED DURING FISCAL YEAR OF 2003

Share purchase loans

Effective January 1, 2003, the Company prospectively applied the new guidelines of Emerging Issues Committee (EIC) Abstract 132 of the Handbook on accounting for share purchase loans receivable from employees. Consequently, these loans are no longer presented as accounts receivable, but as a deduction from shareholders' equity, more precisely from capital stock, and interest received on such loans is no longer considered as income, but accounted for as a capital transaction in shareholders' equity.

The impact of the loans reclassification represented $5 million as at January 1, 2003 and $3 million at the end of the year.

EXPECTED TO BE ADOPTED IN SUBSEQUENT YEARS

Elimination of industry practice

The new Canadian Institute of Chartered Accountants (CICA) Handbook section 1100, *"Generally Accepted Accounting*

Principles", has been issued, effective for fiscal years beginning on or after October 1, 2003. The new section establishes standards for financial reporting in accordance with GAAP. It clarifies the relative authority of various accounting pronouncements and other sources of guidance within GAAP, complementing section 1000, *"Financial Statement Concepts"*. The new standard eliminates "industry practice" as a possible source to consult. As a result, starting January 1, 2004, the Company will retroactively apply its distribution costs as an expense, instead of a reduction of gross sales to determine the net sales.

The application of the new standard will increase both net sales and expenses by $577 million in 2003, $582 million in 2002 and $581 million in 2001 resulting in no impact on net earnings and on cash flows.

Impairment of long-lived assets
The Accounting Standards Board (ASB) of the CICA has issued section 3063, *"Impairment of Long-Lived Assets"*, which is effective for fiscal years beginning on or after April 1, 2003. This section establishes standards for recognition, measurement and disclosure of the impairment of non-monetary long-lived assets, including property, plant and equipment, intangible assets with finite useful lives, deferred pre-operating costs and long-term prepaid assets.

The Company does not expect that the implementation of this new standard will have a significant impact on its consolidated financial statements.

Asset retirement obligations
The ASB of the CICA has issued a new section in the CICA Handbook, section 3110, *"Asset Retirement Obligations"*, which is effective for fiscal years beginning on or after January 1, 2004. This standard focuses on the recognition, measurement and disclosure of liabilities related to legal obligations associated with the retirement of tangible long-lived assets. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the passage of time and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time.

The Company does not expect that the implementation of this new standard will have a significant impact on its consolidated financial statements.

Stock-based compensation
The ASB of the CICA has issued new recommendations relative to Handbook section 3870, *"Stock-based Compensation and Other Stock-based Payments"*, which is effective for fiscal years beginning on or after January 1, 2004. The recommendation states that the fair value-based method must be used, the intrinsic value method being no longer acceptable. The Company will adopt the new recommendation retroactively with restatement.

The Company does not expect that the implementation of this new standard will have a significant impact on its consolidated financial statements.

Hedging relationships
The ASB of the CICA has issued Accounting Guideline (AcG) AcG-13 *"Hedging Relationships"*, which should be applied to hedging relationships in effect in fiscal years beginning on or after July 1, 2003. The guideline presents the views of the ASB on the identification, designation, documentation and effectiveness of hedging relationships, for the purpose of applying hedge accounting, as well as on the discontinuance of hedge accounting. The guideline establishes certain conditions when hedge accounting may be applied.

The Company does not expect that the implementation of this guideline will have a significant impact on its consolidated financial statements.

Consolidation of variable interest entities
The ASB of the CICA issued AcG-15, *"Consolidation of Variable Interest Entities"*, which will be effective for annual and interim periods beginning on or after November 1, 2004. This guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests.

The Company does not expect that the implementation of this guideline will have a significant impact on its consolidated financial statements.

Revenue recognition
The EIC of the CICA issued EIC-141, *"Revenue Recognition"*, EIC-142, *"Revenue Arrangements with Multiple Deliverables"* and EIC-143, *"Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts"*, which will all be effective for annual and interim periods beginning on or after December 17, 2003. EIC-141 summarizes the principles set as interpretative guidance on the application of Handbook section 3400, *"Revenue"*. Specifically, this EIC presents the criteria to be met for revenue recognition to be considered achieved. EIC-142 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities for a given customer. Finally, EIC-143 considers the issue of how revenue and costs from a separately priced extended warranty or product maintenance contract should be recognized.

The Company does not expect that the implementation of the accounting treatments presented in these EICs will have a significant impact on its consolidated financial statements.

Critical Accounting Policies and Estimates

The Company's summary of significant accounting policies is described in note 1 of the consolidated financial statements. Abitibi-Consolidated believes its most critical accounting policies include those related to foreign exchange; property, plant and equipment; goodwill; employee future benefit plans; and future income taxes.

FOREIGN EXCHANGE

The application of CICA Handbook Section 1650 *"Foreign Currency Translation"* requires that monetary assets and liabilities of domestic and integrated foreign operations denominated in foreign currencies be translated at year-end exchange rate and the gains or losses resulting from the period to period exchange variation be absorbed in the consolidated statement of earnings.

The majority of the Company's long-term debt is denominated in U.S. dollars. A variation of US$0.01 in relative value to

the Canadian dollar represents $60 million of non-cash pre-tax gain or loss to the Company's consolidated statement of earnings.

PROPERTY, PLANT AND EQUIPMENT

The Company records its property, plant and equipment at cost, including capitalized interest and pre-production costs. Investment tax credits and government capital grants received reduce the cost of the related assets. Property, plant and equipment purchased following a business acquisition are recorded at their fair value based on an independent study.

The Company amortizes plant and equipment over their productive life mainly using the straight-line method. However, the Company could write off certain plant and equipment in case of premature termination of their useful life.

GOODWILL

The application of CICA Handbook Section 3062 *"Goodwill and Other Intangible Assets"* requires that the excess of the purchase amount of acquisitions over the value of the identifiable net assets should not be amortized to earnings, but periodically tested for impairment.

The Company uses certain operating and financial assumptions to conduct its impairment test. This test uses current market information, when available, or other generally accepted valuation methods, such as discounted cash flows. Differences in assumptions regarding discount rates and projection of future operating cash flows could have a significant impact on the determination of the impairment amount reported through the Company's consolidated statement of earnings. These assumptions are tested against relevant independent information for consistency and reliability.

Changes in estimates or assumptions could affect the goodwill impairment in the statement of earnings and goodwill in the balance sheet of the Company's consolidated financial statements.

EMPLOYEE FUTURE BENEFIT PLANS

The application of CICA Handbook Section 3461 *"Employee Future Benefits"* requires judgments regarding certain assumptions that affect the amounts recorded for estimated plans accrued benefit obligations and related income or expense.

The Company uses independent actuarial firms to perform actuarial valuation of the fair values of post-retirement and pension plans obligations. The major assumptions are the discount rate used to calculate the present value of the pension obligation, the expected return on plan assets and the rate of compensation increase. The Company, based on its own experience and recommendations from its actuarial firms, evaluates these assumptions annually. The Company amortizes past service costs and cumulative unrecognized net actuarial gains and losses, in excess of 10% of the greater of the accrued benefit obligation or the market-related value of plan assets, over the average remaining service period of the active employee group covered by the plans.

As at December 31, 2003, the Company's deficit of the fair value of the pension plan assets over its accrued benefit obligation was $696 million compared to $791 million at the end of 2002. This improvement is mainly attributable to the high return on plan assets in the last quarter of 2003. In 2004, the Company will perform an actuarial valuation on most of its pension plans. As a result, the Company anticipates that it will fund its actuarial deficit over the next five years. Consequently, the Company believes its minimum pension funding in excess of pension expenses will be in the range of $100 million for 2004 compared to $34 million in 2003.

Changes in estimates or assumptions could affect cost of products sold in the statement of earnings and the employee future benefits in the balance sheet of the Company's consolidated financial statements.

A description of the plans, the assumptions used in the calculation and certain sensitivities are presented in note 19 of the consolidated financial statements.

FUTURE INCOME TAXES

The application of CICA Handbook Section 3465 *"Income Taxes"* requires that future income tax assets and liabilities be recognized for the future income tax consequences of events that have been included in the consolidated statement of earnings or income tax returns. Future income tax is provided for using the liability method and recognizes all significant temporary differences between the tax and consolidated financial statements bases of assets, liabilities and certain carry forward items.

The Company's future income tax assets are recognized only to the extent that, in the Company's opinion, it is more likely than not that the future income tax assets will be realized. This opinion is based on certain estimates and assumptions. If these estimates or assumptions change in the future, the Company could be required to reduce or increase the value of the future income tax assets resulting in income tax expense or recovery. The Company evaluates its future income tax assets periodically.

Changes in estimates or assumptions could affect the income tax in the statement of earnings and the future income taxes in the balance sheet of the Company's consolidated financial statements.

Use of non-GAAP Financial Measures

EBITDA is not a recognized measure under Canadian GAAP. The Company believes that this measure is useful supplemental information as it provides readers with an indication of cash available prior to debt service, capital expenditures and income taxes. Readers should be cautioned however, that this information should not be confused with or used as an alternative for net earnings determined in accordance with GAAP as an indicator of performance or cash flows from continuing operating, investing and financing activities as a measure of liquidity and cash flows.

TABLE 13. EBITDA RECONCILIATION
In millions of dollars

	2003	2002
	$	$
Operating profit (loss) from continuing operations	(322) (1)	182
Plus:		
Amortization of plant and equipment	687	648
Amortization of intangible assets	16	16
Goodwill impairment	21	–
EBITDA	402 (1)	846

(1) includes $67 million of closure costs

EBITDA is calculated by adding amortization of plant and equipment, amortization of intangible assets as well as goodwill impairment to operating profit from continuing operations. The Company's method for calculating this information may differ from that used by other companies and, accordingly, this information may not be comparable to measures used by other companies. (See Table 13)

Disclosure Controls and Procedures and Internal Controls

Disclosure controls and procedures have been established by the Company to ensure that information disclosed by the Company in this MD&A and the related financial statements was properly recorded, processed, summarized and ultimately reported to the Board and the Audit Committee.

The Company has also established internal controls and procedures for financial reporting to ensure that the financial information contained in this MD&A and the related financial statements is fairly presented in conformity with GAAP and that the Company's transactions are properly approved, its assets are safeguarded against unauthorized or improper use, and the transactions it enters into are properly recorded and reported to permit the preparation of the Company's financial statements in conformity with GAAP.

In the year ended December 31, 2003, the Company did not make any significant changes in, nor take any significant corrective actions regarding, the controls and procedures described in the two preceding paragraphs, or other factors that could significantly affect these controls and procedures. The Company's CEO and CFO periodically review the aforementioned controls and procedures for effectiveness and conduct an evaluation each quarter. As of the end of the fourth quarter, the Company's CEO and CFO were satisfied with the effectiveness of the aforementioned controls and procedures.

Oversight Role of Audit Committee and the Board of Directors

The Audit Committee reviews the Company's annual MD&A and related financial statements with management and the external auditors, and recommends their approval to the Board. Management and the internal auditor of the Company also present periodically to the committee a report of their assessment of the Company's internal controls and procedures for financial reporting. The external auditor periodically prepares for management a report on internal control weaknesses identified during the course of the auditor's annual audit, which is reviewed by the Audit Committee.

Additional Information

Additional information relating to Abitibi-Consolidated, including the Annual Information Form, is on SEDAR at **www.sedar.com**, on EDGAR at **www.edgar-online.com** and on the Company's website at **www.abitibiconsolidated.com**.

Financial Statements

Management's report

The consolidated financial statements and all other information in the Annual Report are the responsibility of the Company's management and have been approved by its Board of Directors.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include some amounts that are based on best estimates and judgment. Financial information provided elsewhere in the Annual Report is consistent with that shown in the consolidated financial statements.

Senior management of the Company is responsible for the design, establishment and maintenance of appropriate internal controls and procedures for financial reporting, to ensure that financial statements for external purposes are fairly presented in conformity with generally accepted accounting principles. Pursuant to these internal controls and procedures, processes have been designed to ensure that the Company's transactions are properly authorized, the Company's assets are safeguarded against unauthorized or improper use, and the Company's transactions are properly recorded and reported to permit the preparation of the Company's financial statements in conformity with generally accepted accounting principles. A team of internal auditors regularly evaluates the effectiveness of the Company's accounting systems, policies and internal controls and procedures for financial reporting, presents its findings to senior management and informs the Audit Committee of the Board of its conclusions arising from this evaluation.

External and internal auditors have free and independent access to the Audit Committee, which is comprised of four unrelated members of the Board of Directors. The Audit Committee, which meets regularly throughout the year with members of the financial management and the external and internal auditors, reviews the consolidated financial statements and recommends their approval to the Board of Directors.

The accompanying consolidated financial statements have been examined by the external auditors, PricewaterhouseCoopers LLP, whose report follows.

John Weaver

John W. Weaver
President and Chief Executive Officer

February 27, 2004
Montréal, Canada

Pierre Rougeau

Pierre Rougeau
Senior Vice-President, Corporate Development and Chief Financial Officer

February 27, 2004
Montréal, Canada

Auditors' report

To the Shareholders of Abitibi-Consolidated Inc.

We have audited the consolidated balance sheets of **Abitibi-Consolidated Inc.** as at December 31, 2003 and 2002 and the consolidated statements of earnings, deficit and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
January 26, 2004 (except as to note 25, dated February 27, 2004)
Montréal, Canada

Consolidated Statement of Earnings

Years ended December 31
(in millions of Canadian dollars, except per share amounts)

	2003	2002	2001
	$	$	$
Net sales	**4,786**	5,122	5,811
Cost of products sold	**4,136**	4,107	4,018
Selling, general and administrative expenses	**181**	169	172
Closure costs (note 4)	**67**	–	–
Amortization of plant and equipment	**687**	648	640
Amortization of intangible assets	**16**	16	16
Goodwill impairment (note 9)	**21**	–	–
Operating profit (loss) from continuing operations	**(322)**	182	965
Financial expenses (note 6)	**389**	444	470
Loss (gain) on translation of foreign currencies	**(741)**	(54)	265
Other expenses (note 7)	**9**	13	13
Earnings (loss) from continuing operations before the following items	**21**	(221)	217
Income tax expense (recovery) (note 8)	**(151)**	(181)	84
Non-controlling interests	**(10)**	7	23
Goodwill amortization	**–**	–	40
Earnings (loss) from continuing operations	**182**	(47)	70
Earnings (loss) from discontinued operations (note 5)	**(3)**	306	36
Net earnings	**179**	259	106
Earnings (loss) per share (basic and diluted) (note 10)			
From continuing operations	**0.41**	(0.11)	0.16
Net earnings	**0.41**	0.59	0.24
Weighted average number of common shares outstanding (in millions)	**440**	440	440
Common shares outstanding, end of year (in millions)	**440**	440	440

Consolidated Statement of Deficit

Years ended December 31
(in millions of Canadian dollars)

	2003	2002	2001
	$	$	$
Deficit, beginning of year	**(497)**	(580)	(510)
Net earnings	**179**	259	106
Dividends declared	**(77)**	(176)	(176)
Deficit, end of year	**(395)**	(497)	(580)

See accompanying Notes to consolidated financial statements

Consolidated Statement of Cash Flows

Years ended December 31
(in millions of Canadian dollars)

	2003	2002	2001
	$	$	$
Continuing operating activities			
Earnings (loss) from continuing operations	182	(47)	70
Amortization	703	664	656
Goodwill impairment and amortization (note 9)	21	–	40
Future income taxes (note 8)	(156)	(208)	12
Loss (gain) on translation of foreign currency long-term debt	(823)	(59)	259
Employee future benefits, excess of disbursements over expense	(34)	(69)	(58)
Non-controlling interests	(10)	7	23
Other non-cash items	20	21	39
	(97)	309	1,041
Changes in non-cash operating working capital components (note 12)	158	(66)	(51)
Cash flows from continuing operating activities	61	243	990
Financing activities of continuing operations			
Increase in long-term debt	1,595	911	1,579
Repayment of long-term debt	(1,334)	(1,281)	(1,599)
Financing fees	(9)	–	–
Cash contributions by non-controlling interests in subsidiaries	43	–	–
Dividends paid to shareholders	(110)	(176)	(176)
Dividends paid to non-controlling shareholders of subsidiaries	(8)	(5)	(22)
Net proceeds on issuance of shares (note 10)	2	–	–
Cash flows from (used in) financing activities of continuing operations	179	(551)	(218)
Investing activities of continuing operations			
Business acquisition, net of cash acquired (note 3)	–	–	(286)
Additions to property, plant and equipment	(262)	(214)	(459)
Additions to intangible assets	(4)	–	–
Net proceeds on disposal of discontinued operations (note 3)	–	460	–
Investments	(31)	(46)	(16)
Net proceeds on disposal of property, plant and equipment and other assets	7	–	43
Other	(22)	–	(11)
Cash flows from (used in) investing activities of continuing operations	(312)	200	(729)
Cash generated by (used in) continuing operations	(72)	(108)	43
Cash generated by discontinued operations (note 5)	–	51	38
Increase (decrease) in cash and cash equivalents during the year	(72)	(57)	81
Currency translation adjustment on cash	(21)	(5)	4
Cash and cash equivalents, beginning of year	146	208	123
Cash and cash equivalents, end of year (note 12)	53	146	208

See accompanying Notes to consolidated financial statements

Consolidated Balance Sheet

As at December 31
(in millions of Canadian dollars)

	2003	2002
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	53	146
Accounts receivable	372	535
Inventories (note 13)	755	782
Prepaid expenses	58	57
	1,238	1,520
Investments (note 3 and note 14)	273	264
Property, plant and equipment (note 15)	6,421	7,138
Intangible assets (note 16)	489	501
Future income taxes (note 8)	296	221
Other assets (note 17)	91	74
Goodwill (note 1 and note 9)	1,377	1,426
	10,185	11,144
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,048	1,100
Long-term debt due within one year (note 18)	317	225
	1,365	1,325
Long-term debt (note 18)	4,641	5,408
Employee future benefits (note 19)	86	135
Future income taxes (note 8)	934	986
Deferred gain (note 3)	122	134
Non-controlling interests	167	70
Shareholders' equity		
Capital stock (note 10)	3,517	3,520
Contributed surplus	14	14
Deficit	(395)	(497)
Foreign currency translation adjustment (note 20)	(266)	49
	2,870	3,086
	10,185	11,144

See accompanying Notes to consolidated financial statements

Approved by the Board

John W. Weaver
President and Chief Executive Officer

C. Edward Medland
Chairman of the Audit Committee

Consolidated Business Segments

Years ended December 31
(in millions of Canadian dollars, except as noted)

	Net sales	Amortization and impairment	Operating profit (loss) [1]	Assets	Additions to capital assets [2]	Sales volume (unaudited)
	$	$	$	$	$	
2003						
Newsprint	2,805	464	(187)	6,561	106	4,611 (a)
Value-added groundwood papers	1,396	181	(49)	2,874	131	1,810 (a)
Wood products [3]	585	79	(86)	750	29	1,930 (b)
Continuing operations	4,786	724	(322)	10,185	266	
2002						
Newsprint	2,915	425	–	7,285	152	4,624 (a)
Value-added groundwood papers	1,541	186	136	3,041	38	1,770 (a)
Wood products [3]	666	53	46	818	24	1,759 (b)
Continuing operations	5,122	664	182	11,144	214	
2001						
Newsprint	3,502	449	636	7,550	173	4,456 (a)
Value-added groundwood papers	1,717	155	317	2,863	242	1,761 (a)
Wood products [3]	592	52	12	891	44	1,704 (b)
Continuing operations	5,811	656	965	11,304	459	

(1) As at December 31, 2003, operating profit (loss) for the "Newsprint" segment includes an asset write-off of $67 million and closure costs of $50 million (2002 – $12 million for asset write-off, 2001 – $33 million for asset write-off).
As at December 31, 2003, operating profit (loss) for the "Value-added groundwood papers" segment includes closure costs of $17 million. There were no such costs in 2002 and 2001.
As at December 31, 2003, operating profit (loss) for the "Wood products" segment includes a goodwill impairment charge of $21 million. There was no such charge in 2002 and 2001.
(2) Capital assets include property, plant and equipment and intangible assets.
(3) Wood products sales are presented net of inter-segment sales of $189 million in 2003 (2002 – $163 million, 2001 – $199 million).

(a) in thousands of tonnes
(b) in millions of board feet

See accompanying Notes to consolidated financial statements

Consolidated Geographic Segments

Years ended December 31
(in millions of Canadian dollars)

Net sales, capital assets[1] and goodwill by geographic manufacturing location are as follows:

	Net sales	Capital assets and goodwill
	$	$
2003		
Canada	**3,520**	**5,391**
U.S.	**634**	**1,763**
Other countries	**632**	**1,133**
Continuing operations	**4,786**	**8,287**
2002		
Canada	3,708	5,640
U.S.	716	2,063
Other countries	698	1,362
Continuing operations	5,122	9,065
2001		
Canada	4,286	5,931
U.S.	925	2,202
Other countries	600	1,335
Continuing operations	5,811	9,468

Net sales by final sales destination are as follows:

	2003	2002	2001
	$	$	$
Canada	**714**	724	745
U.S.	**2,832**	3,088	3,709
Other countries	**1,240**	1,310	1,357
Continuing operations	**4,786**	5,122	5,811

(1) Capital assets include property, plant and equipment and intangible assets.

See accompanying Notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2003, 2002 and 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of Abitibi-Consolidated Inc. (the "Company") are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These financial statements differ in certain respects from those prepared in accordance with United States generally accepted accounting principles ("US GAAP") and are not intended to provide certain disclosures which would be found in US GAAP financial statements. These measurement differences are described in note 26 "Differences between Canadian and United States generally accepted accounting principles".

Principles of consolidation

The consolidated financial statements include the accounts of the Company, all its subsidiaries and its proportionate interest in joint venture investments. The investments in companies subject to significant influence are accounted for using the equity method.

Since January 1, 2003, the Company has an option, at a predetermined nominal amount, to purchase the other joint venture partner's 50% interest in Alabama River Newsprint Company ("Alabama") and Alabama River Recycling Company ("Alabama Recycling"). This option may be exercised until June 30, 2005. After expiration of this option, the other partner has a put option, for 45 days, that, if exercised, could force the Company to acquire its 50% interest.

In accordance with Section 1590 of the Canadian Institute of Chartered Accountants Handbook (the "Handbook"), control exists even if the Company does not own the majority voting interest because it has the continuing ability to elect the majority of the members of the board of directors through ownership of an option that, if exercised, would give the Company the majority voting interest. Since the purchase amount referred to above is nominal, the Company's consolidated financial position as at December 31, 2003 and the consolidated results of its operations and its cash flows for the year ended December 31, 2003 include the accounts of Alabama and Alabama Recycling, which are no longer included on a proportionate consolidation basis.

Business of the Company

The Company operates an integrated business in forest products. Operations are located in Canada, the United States, the United Kingdom, South Korea, China and Thailand. The woodlands operations supply logs to sawmills and certain pulp and paper mills. Sawmills process logs to produce wood products and wood chips. The production and selling of wood products constitutes the "Wood products" segment. Chips are used in the production of newsprint, value-added groundwood papers and market pulp. The remaining fibre requirements for the production of newsprint and value-added groundwood papers is obtained mainly from the paper recycling facilities operated by the Company and from third-party supply agreements. The manufacturing and selling of newsprint and the collection of old papers constitute the "Newsprint" segment. As newsprint is used to print newspapers and advertising flyers, demand is determined by circulation and advertising. The manufacturing and selling of value-added groundwood papers and a small volume of market pulp constitute the "Value-added groundwood papers" segment. Value-added groundwood papers are used by commercial printers, converters, advertisers and publishers to produce advertising inserts, books, telephone directories, business forms, magazines and catalogues.

Most of the Company's products are marketed globally with a significant concentration in the United States. The Company does not have any customers for which sales exceed 10% of total sales.

The accounting policies used in each of these business segments are the same as those described in this summary of significant accounting policies. The head office costs are distributed to the different segments using an appropriate method and this distribution is accounted for at book value. Inter-segment transfers of wood chips, old papers and electricity are recorded at the exchange value, which is the amount agreed to by the parties.

The business segments are managed separately because each segment requires different technology and marketing strategies. Business segment operating profits take into account net sales, cost of products sold, selling, general and administrative expenses, closure costs, amortization of plant and equipment and intangible assets, and goodwill impairment for each business segment. Interest income, financial charges, loss or gain on translation of foreign currencies, other expenses and income tax expense are not allocated to specific business segments.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

Revenue
The Company recognizes revenue when persuasive evidence of an arrangement exists, goods have been delivered, there are no uncertainties surrounding product acceptance, the related revenue is fixed and determinable and collection is considered probable.

Translation of foreign currencies
Self-sustaining foreign operations
Assets and liabilities of self-sustaining foreign subsidiaries and joint ventures are translated into Canadian dollars at year-end exchange rates and the resulting unrealized exchange gains or losses are included in the foreign currency translation adjustment account in shareholders' equity. Revenue and expense items are translated into Canadian dollars at the exchange rate in effect on the date on which such items are recognized into earnings.

Translation of other foreign currency transactions
U.S. dollar debt is translated at the year-end exchange rate. The resulting exchange gains or losses are included in earnings of the year.

Realized gains and losses on options and forward exchange contracts that hedge anticipated revenues are included in earnings when such revenue is earned.

Inventories
Wood products, newsprint and value-added groundwood papers inventories are valued at the lower of cost, determined on an average cost basis, and net realizable value.

Logs, chips, other raw materials and production and maintenance supply inventories are valued at the lower of cost, determined on an average cost basis, and replacement cost.

Investments
Investments in companies and other entities subject to significant influence are accounted for using the equity method. Other investments are recorded at cost.

Property, plant and equipment and amortization
Property, plant and equipment are recorded at cost, including capitalized interest and pre-production costs. Investment tax credits and government capital grants received reduce the cost of the related assets.

Amortization is provided principally using the straight-line method at rates which amortize the assets' cost over their useful lives as follows:

	Rates
Buildings, pulp and paper mill production equipment, and main logging roads	4%–5%
Sawmill production equipment	8.5%–10%
Hydroelectric power plants	2.5%

Additions to plant and equipment are amortized from the date of operation.

Intangible assets and amortization
Intangible assets are recorded at cost. Amortization is provided using the straight-line method over the useful lives of the intangible assets.

	Rates
Water rights	2.5%
Cutting rights and land use rights	3%–4%

Other assets

Other assets are reported at cost. Deferred financing fees are amortized on a straight-line basis over the life of the related long-term debt, which generally ranges from 5 to 30 years.

Goodwill

Goodwill represents the excess of the purchase amount of investments in subsidiaries, joint ventures and businesses acquired over the proportionate share of the underlying value of the identifiable net assets at the date of acquisition. Since January 1, 2002, goodwill is no longer amortized to earnings, but periodically tested for impairment. On an ongoing basis (absent any impairment indicators), the Company performs its annual impairment test during the fourth quarter of each year.

Environmental costs

The Company is subject to environmental laws and regulations enacted by federal, provincial, state and local authorities. Environmental expenditures that will benefit the Company in future years are recorded at cost and capitalized as part of property, plant and equipment. Amortization is charged to income over the estimated future benefit period of the assets. Environmental expenditures that are not expected to provide a benefit to the Company in future periods are accrued and expensed to earnings, on a site-by-site basis, when a requirement to remedy an environmental exposure is probable and a cost can be reasonably estimated.

Employee future benefits

Pensions

The Company accrues the cost of defined benefit plans as determined by independent actuaries based on assumptions determined by the Company. The net periodic benefit cost includes:

- the cost of pension benefits provided in exchange of employees' services rendered during the year;
- the interest cost of pension obligations;
- the expected long-term return on pension fund assets, which is based on a market-related value determined using a five-year moving average market value for equity securities and fair value for other asset classes;
- gains or losses on settlements, curtailments and special early retirement;
- the straight-line amortization of past service costs and plan amendments over the average remaining service period of the active employee group covered by the plans; and
- the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or market-related value of plan assets, at the beginning of the year, over the average remaining service period of the active employee group covered by the plans.

The pension plans obligations are determined in accordance with the projected benefit method prorated on services.

Other employee future benefit plans

The Company accrues the cost of post-retirement benefits other than pensions as determined by independent actuaries based on assumptions determined by the Company. These benefits, which are funded by the Company as they become due, include life insurance programs and medical and dental benefits. The Company amortizes the cumulative unrecognized net actuarial gains and losses in excess of 10% of the accrued benefit obligation at the beginning of the year, over the average remaining service period of the active employee group covered by the plans.

Income taxes

Future income tax assets and liabilities are recognized for the future income tax consequences of events that have been included in the financial statements or income tax returns of the Company. Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets, liabilities and carry forward items.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Stock-based compensation plans

The Company has stock-based compensation plans, which are described in note 11. The Company records, as a charge to earnings, the intrinsic value of stock options at the grant date, which is usually nil. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock.

All costs related to the other stock-based compensation plans are accrued and expensed to earnings when earned or over the vesting period, if any.

Derivative instruments

The Company utilizes derivative instruments in the management of its foreign currency and interest rate exposures. The Company uses hedging instruments to hedge changes in fair value or cash flows for items with identified exposures. The Company also assesses, both at the hedge's inception and on an ongoing basis, the effectiveness of hedging instruments. The Company uses hedge accounting to account for the derivative instruments formally designated as hedging instruments and the fair value method for derivative instruments not designated as hedging instruments.

Realized and unrealized gains or losses associated with hedging instruments for which the underlying hedged items are either sold, paid or terminated are recognized to earnings. Realized and unrealized gains or losses when hedging instruments have ended or cease to be effective prior to their maturity are deferred and recognized in earnings concurrently with the recognition of the items being hedged.

The Company hedges its foreign exchange exposure on anticipated net cash inflows in U.S. dollars through the use of options and forward contracts. Resulting gains and losses, including premiums on options, are recognized when the designated sale is recognized and are included in "Net sales".

The Company hedges its risk exposure to interest rates on its long-term debt through the use of interest rate swap contracts. Amounts accounted for under interest rate swap agreements are recognized as adjustments to "Financial expenses".

Change in accounting policies

Effective January 1, 2003, the Company prospectively applied the new guidelines of Emerging Issues Committee ("EIC") Abstract 132 of the Handbook on accounting for share purchase loans receivable from employees and accordingly, these loans, totalling $5 million as at January 1, 2003, are no longer presented as accounts receivable, but as a deduction from shareholders' equity, more precisely from capital stock. Also, interest received on such loans is no longer considered as income, but accounted for as a capital transaction in shareholders' equity.

Accounting principles issued but not yet implemented

Canadian generally accepted accounting principles

The new Handbook section 1100, "*Generally Accepted Accounting Principles*", has been issued and is effective for years beginning on or after October 1, 2003. The new section establishes standards for financial reporting in accordance with Canadian GAAP. It clarifies the relative authority of various accounting pronouncements and other sources of guidance within Canadian GAAP, complementing section 1000, "*Financial Statement Concepts*". The new standard eliminates "industry practice" as a possible source for consultation. As a result, starting January 1, 2004, the Company will record its distribution costs as an operating expense, instead of as a reduction from gross sales to determine "Net sales". This standard will be applied retroactively. Therefore, had the new standard been in force for the year ended December 31, 2003, net sales and expenses would have been higher by $577 million (2002 – $582 million, 2001 – $581 million). This will not have any impact on past or future net earnings and cash flows.

Impairment of long-lived assets

The Accounting Standards Board ("ASB") of the Canadian Institute of Chartered Accountants ("CICA") has issued section 3063, "*Impairment of Long-Lived Assets*", which is effective for years beginning on or after April 1, 2003. This section establishes standards for recognition, measurement and disclosure of the impairment of non-monetary long-lived assets, including property, plant and equipment, intangible assets with finite useful lives, deferred pre-operating costs and long-term prepaid assets. The Company will apply this new standard prospectively and does not expect that its implementation will have a significant impact on its consolidated financial position or results of operations.

Asset retirement obligations
The ASB of the CICA has issued section 3110 of the Handbook, *"Asset Retirement Obligations"*. This standard focuses on the recognition, measurement and disclosure of liabilities related to legal obligations associated with the retirement of tangible long-lived assets. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the passage of time and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. The section is effective for fiscal years beginning on or after January 1, 2004. Management does not expect the adoption of this new standard to have any significant impact on its consolidated financial statements.

Stock-based compensation plan
The ASB of the CICA has issued a new recommendation relative to Handbook section 3870, *"Stock-based Compensation and Other Stock-based Payments"* that states that a fair value based measurement basis must be used. The intrinsic value method is no longer acceptable. This recommendation will be effective for fiscal years beginning on or after January 1, 2004. The Company will adopt the new recommendation retroactively with restatement. The implementation of this recommendation will not have a significant impact on the Company's consolidated financial statements.

Hedging relationships
The ASB of the CICA has issued Accounting Guideline ("AcG") AcG-13, *"Hedging Relationships"* that presents its views on the identification, designation, documentation and effectiveness of hedging relationships, for the purpose of applying hedge accounting, as well as on the discontinuance of hedge accounting. The guideline establishes certain conditions for when hedge accounting may be applied. This guideline should be applied to hedging relationships in effect for fiscal years beginning on or after July 1, 2003. In Management's opinion, the implementation of this guideline will not have a significant impact on the Company's consolidated financial statements.

Consolidation of variable interest entities
The ASB of the CICA issued AcG-15, *"Consolidation of Variable Interest Entities"*, which will be effective for annual and interim periods beginning on or after November 1, 2004. This guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. In Management's opinion, the implementation of this guideline will not have an impact on the Company's consolidated financial statements.

Revenue recognition
The EIC of the CICA issued EIC-141, *"Revenue Recognition"*, EIC-142, *"Revenue Arrangements with Multiple Deliverables"* and EIC-143, *"Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts"* which will all be effective for annual and interim periods beginning on or after December 17, 2003. EIC-141 summarizes the principles set as interpretative guidance on the application of Handbook section 3400, *"Revenue"*. Specifically, this EIC presents the criteria to be met for revenue recognition to be considered achieved. EIC-142 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities for a given customer. Finally, EIC-143 considers the issue of how revenue and costs from a separately priced extended warranty or product maintenance contract should be recognized. In Management's opinion, the application of these accounting treatments will not have a significant impact on the Company's consolidated financial statements.

Comparative figures
Certain comparative figures disclosed in the consolidated financial statements have been reclassified to conform to the present year presentation.

2. INVESTMENTS IN JOINT VENTURES

(in millions of Canadian dollars)

The Company's consolidated financial position as at December 31, 2003 and 2002 and consolidated results of operations and cash flows for the years ended December 31, 2003, 2002, and 2001 include, on a proportionate consolidation basis, the impact of its U.S. joint venture partnership of Augusta Newsprint Company ("Augusta") – 50%, its Asian joint venture Pan Asia Paper Co. Pte Ltd ("PanAsia") – 33.33% up to August 16, 2001 and 50% thereafter, its Star Lake Hydro Partnership – 51% and the Company's investments in joint venture sawmills in Québec.

Also, the Company's consolidated financial position as at December 31, 2002 and consolidated results of operations and cash flows for the years ended December 31, 2002 and 2001 include, on a proportionate consolidation basis, the impact of its U.S. joint venture partnership of Alabama – 50% and Alabama Recycling – 50%.

	2003	2002	2001
	$	$	$
Earnings			
Net sales	**751**	847	717
Operating expenses	**691**	735	571
Operating profit	**60**	112	146
Non-operating expenses	**30**	53	78
Net earnings	**30**	59	68
Cash flows from (used in)			
Operating activities	**69**	108	92
Financing activities	**21**	(45)	(53)
Investing activities	**(39)**	(23)	(39)
Assets			
Current assets	**255**	295	256
Property, plant and equipment and other non-current assets	**826**	1,226	1,211
Liabilities			
Current liabilities	**88**	135	104
Long-term debt (including current portion)	**325**	504	590
Other non-current liabilities	**80**	75	64

Since June 30, 2003, the Company has an option, at a predetermined amount, to purchase the joint venture partner's 50% interest in Augusta. This option is valid until June 30, 2005.

3. ACQUISITIONS AND DIVESTITURE

(in millions of Canadian dollars)

a) 2002 Divestiture

On August 1, 2002, the Company completed the sale of its northern bleached softwood kraft pulp mill located in Saint-Félicien, Québec ("the Mill") to SFK Pulp General Partnership ("SFK GP"), created by SFK Pulp Fund ("the Fund") to acquire the Mill. The Company kept all trade receivables related to the Mill's business as at the closing date and received consideration comprising of $437 million in cash, net of $3 million of post-closing transaction costs, 17,775,000 Class B exchangeable units of SFK GP ("Class B units") and a contingent consideration of $11 million. On August 16, 2002, pursuant to the exercise of the over-allotment option for units of the Fund by underwriters, the Company received an additional $23 million and a contingent consideration of $5 million on redemption of 2,962,500 Class B units. As at December 31, 2003, the Company has a 25% interest in SFK GP.

Total net proceeds to the Company, after transaction costs, were approximately $624 million. The Company recorded a gain of $364 million before income taxes and a deferred gain of $134 million on the interest yet retained as at December 31, 2002. This deferred gain will be recorded to earnings upon sale of the investment.

The $16 million contingent consideration was to be held in trust by the Fund and released monthly to the Company between August 1, 2002 and December 31, 2003 if the Fund's monthly distributable cash, as defined in the relevant agreements, exceeds certain levels. As at December 31, 2003, the entire amount of the contingent consideration had been used by the Fund for distributions to its unitholders. The deferred gain described above has therefore been reduced by the same amount.

Class B units are exchangeable into the Fund units on a one-for-one basis, under certain conditions. The Company accounts for its investment in SFK GP using the equity method. The Company views this investment as non-strategic and plans to divest it when appropriate.

During 2003, the Company recorded a pre-tax expense of $4 million related to the transfer of pension funds representing a purchase price adjustment that was based on circumstances up to December 31, 2003.

b) 2001 Acquisitions

On August 16, 2001, the Company acquired 16.67% of the outstanding shares of PanAsia, a company owning interests in four newsprint mills located in Asia. As a result of that transaction, the Company's proportionate ownership rose from 33.33% to 50%. On September 4, 2001, the Company acquired all the outstanding shares of Valley Recycling Works Inc., carrying on a business of paper collection and sorting facilities located in Arizona.

The fair value of net assets acquired and the carrying value of net assets sold were as follows:

	2002 Net assets sold	2001 Net assets acquired
	$	$
Net assets acquired or sold		
Current assets	31	51
Property, plant and equipment	104	280
Other assets and investments	–	3
Current liabilities	(9)	(30)
Long-term debt and bank loan	–	(117)
Employee future benefits	(5)	–
Non-controlling interests	–	(11)
Future income tax liabilities	–	(3)
Goodwill	–	121
Fair value of net assets acquired or carrying value of net assets sold	121	294
Consideration paid (received)		
Cash	(460)	286
Balance receivable	(16)	–
Note payable	–	8
Class B exchangeable units of SFK GP	(148)	–
	(624)	294

4. CLOSURE COSTS

In December 2003, the Company announced the indefinite idling of the Company's Lufkin, Texas and Port-Alfred, Québec paper mills. This indefinite idling resulted in a charge of $67 million ($44 million net of income taxes) mainly related to severance costs, other labour related costs and other costs resulting from the idling of these mills.

As at December 31, 2003, of the $67 million, $5 million had been paid.

5. DISCONTINUED OPERATIONS

(in millions of Canadian dollars, except per share amounts)

As mentioned in note 3, on August 1, 2002, the Company completed the sale of its northern bleached softwood kraft pulp mill located in Saint-Félicien, Québec. Accordingly, the operations of the Saint-Félicien pulp mill have been classified as discontinued operations.

Earnings from discontinued operations are as follows:

	2003	2002	2001
	$	$	$
Net sales	–	103	215
Operating earnings before income taxes	–	19	53
Income tax expense	–	(6)	(17)
Gain (loss) on disposal of business before income taxes	(4)	364	–
Income tax recovery (expense)	1	(71)	–
Earnings (loss) from discontinued operations	(3)	306	36
Earnings from discontinued operations per share	–	0.70	0.08
Condensed cash flows			
Cash flows from operating activities	–	54	47
Cash flows from financing activities	–	–	–
Cash flows used in investing activities	–	(3)	(9)
Cash flows generated by discontinued operations	–	51	38

6. FINANCIAL EXPENSES

(in millions of Canadian dollars)

	2003	2002	2001
	$	$	$
Interest on long-term debt	383	440	464
Amortization of deferred financing fees	6	5	7
Write-off of unamortized financing fees and premium on early retirement of debt	–	10	–
Interest income	(7)	(15)	(2)
Other	7	4	1
	389	444	470

7. OTHER EXPENSES

(in millions of Canadian dollars)

	2003	2002	2001
	$	$	$
Discount on sales of accounts receivable (note 21c)	8	9	26
Gain on disposal of short-term investment and other assets	(2)	–	(10)
Other	3	4	(3)
	9	13	13

8. INCOME TAXES

(in millions of Canadian dollars)

The following table provides a reconciliation of income tax computed at the combined statutory rate to income tax expense (recovery) presented on the consolidated statement of earnings:

	2003	2002	2001
	$	$	$
Income tax expense (recovery) based on combined basic Canadian federal and provincial tax rates	7	(79)	84
Manufacturing and processing allowances	–	8	(12)
Difference in tax rates for foreign subsidiaries	(20)	(21)	(15)
Charge (recovery) from change in tax rates	10	–	(20)
Non-taxable portion of foreign exchange losses (gains)	(88)	(4)	32
Canadian large corporations tax	8	9	11
Re-evaluation of current and future income tax assets and liabilities	(72)	(71)	–
Other	4	(23)	4
Income tax expense (recovery)	(151)	(181)	84

The temporary differences that give rise to future tax assets and liabilities at December 31 consist of the following:

	2003	2002
	$	$
Future income tax assets		
Loss carry forwards	826	676
Other	–	97
	826	773
Future income tax liabilities		
Property, plant and equipment and intangible assets	1,366	1,538
Other	98	–
	1,464	1,538
	638	765
Classified in the consolidated balance sheet as		
Net non-current future income tax assets	296	221
Net non-current future income tax liabilities	934	986
	638	765

Significant components of the income tax expense (recovery) are as follows:

	2003	2002	2001
	$	$	$
Current income tax expense	5	27	72
Future income tax expense (recovery) relating to origination and reversal of timing differences	(166)	(208)	32
Future income tax charge (benefit) resulting from rate changes	10	–	(20)
Income tax expense (recovery)	(151)	(181)	84

Management believes that all future income tax assets will more likely than not be realized.

9. GOODWILL

(in millions of Canadian dollars)

During the fourth quarter of 2003, the Company performed the required annual impairment test of goodwill and found that impairment did exist in relation to the "Wood products" segment, mainly due to economic market conditions, including the strengthening Canadian dollar.

As a result, a goodwill impairment charge of $21 million was recorded, which represented all the goodwill related to the "Wood products" segment.

	2003			
	Newsprint	Value-added groundwood papers	Wood products	Total
	$	$	$	$
Goodwill, beginning of year	993	412	21	1,426
Goodwill impairment	–	–	(21)	(21)
Foreign exchange adjustment	(26)	(2)	–	(28)
Goodwill, end of year	967	410	–	1,377

	2002			
	Newsprint	Value-added groundwood papers	Wood products	Total
	$	$	$	$
Goodwill, beginning of year	987	412	21	1,420
Foreign exchange adjustment	6	–	–	6
Goodwill, end of year	993	412	21	1,426

During 2001, the earnings from continuing operations of $70 million included a charge of $40 million for goodwill amortization. The earnings from continuing operations before goodwill amortization amounted to $110 million, or $0.25 per share (basic and diluted).

10. CAPITAL STOCK

(in millions of Canadian dollars)

a) Authorized

The Company is incorporated under the Canada Business Corporations Act and is authorized to issue an unlimited number of preferred shares and common shares.

b) Issued common shares

	2003		2002		2001	
	Million shares	$	Million shares	$	Million shares	$
Common shares, beginning of year	440	3,520	440	3,520	440	3,520
Variation in share purchase loans receivable from employees	–	(3)	–	–	–	–
Common shares, end of year	440	3,517	440	3,520	440	3,520

As mentioned in note 1, "Change in accounting policies", as at January 1, 2003, the share purchase loans receivable from employees totalled $5 million. Those loans were granted to certain designated executives in an amount equal to the purchase price of the common shares acquired. The loans mature at various dates from 2004 to 2009. Interest is charged at the lesser of the prevailing prime rate and the amount of dividends attributable to ownership of the common shares. The common shares are held as security until the loan is repaid. Outstanding employee stock purchase loans totalled $3 million as at December 31, 2003.

The exercise of outstanding stock options as at December 31, 2003, 2002 and 2001 would have had a non-dilutive effect on the earnings per share.

11. STOCK-BASED COMPENSATION PLANS

(in millions of Canadian dollars, except as noted)

a) Employees share ownership plan

On January 1, 2002, the Company introduced a stock ownership plan for its non-unionized employees, including senior executives. Under this plan, participants may contribute, through payroll deductions, up to $3,000 annually. On January 31 of each year, provided certain conditions are met, the Company will contribute an additional amount equal to 33% of the total contribution made by each participant during the preceding year. The shares are purchased on the open market.

b) Performance share units plan

The Company has established a performance share unit ("PSU") plan for designated senior executives, which places an emphasis on pay for performance. Performance is measured on the basis of an annualized rate of return over a three-year performance period. It is based on a total shareholder return ("TSR"), which reflects share price appreciation and dividends paid for the period. PSUs are earned on the basis of the Company's TSR ranking measured against the TSR of comparable companies. Payments to executives are based on the number of PSUs earned multiplied by the market value of the Company's common shares at the end of the three-year performance period. At the employee's discretion, payment may be made entirely in common shares purchased on the open market or 50% in common shares and 50% in cash. During the year ended December 31, 2003, the Company granted 156,078 PSUs (2002 – 170,950 PSUs). As at December 31, 2003, the total number of PSUs outstanding was 322,762 and there was no significant amount payable under this plan.

c) Deferred share unit plans

The Company has established a deferred share unit plan for designated senior executives. Under the terms of this plan, senior executives can elect to have a portion of their annual incentive remuneration paid to them in the form of deferred share units ("DSU"). Each DSU is equivalent in value to a common share of the Company and is notionally credited with dividends when shareholders receive dividends from the Company. A DSU is paid to an executive upon termination of employment and is payable, at the executive's option, in the form of either cash or common shares of the Company, which are purchased on the open market. As at December 31, 2003, 212,118 DSUs are outstanding under this plan (2002 – 168,885 DSUs) and there is no significant amount payable.

Non-employee directors of the Company are also given the option to receive part of their annual retainer, meeting fees and awards under the Directors' Share Award Plan in the form of DSUs. A DSU is paid to a director upon termination of Board service and is payable in the form of cash. As at December 31, 2003, 135,357 DSUs are outstanding under this plan (2002 – 98,934 DSUs) and there is no significant amount payable.

d) Stock option plans

The Company has stock option plans for eligible employees and non-employee directors of the Company, under which common shares of the Company may be purchased at a price equal to the market price of the common shares at the granting date of the option. The right to exercise the options generally vests over a period of four years of continuous employment or immediately for non-employee directors of the Company. The options can be exercised over a period not to exceed 10 years from the date of the grant. Under these plans, a maximum of 19,950,000 stock options may be granted.

In accordance with Section 3870 of the Handbook and using the straight-line method over the vesting period, the following pro forma disclosures present the effect on income had the fair value-based method been chosen. Only stock options granted after the adoption date have been fair valued. As mentioned in note 1, starting in 2004, the Company will record a stock options' expense based on the fair value-based method.

	2003	2002
	$	$
Net earnings		
As reported	179	259
Pro forma	175	257
Earnings per share		
As reported	0.41	0.59
Pro forma	0.40	0.58

The fair value of each option granted was estimated on the granting date using the Black & Scholes option-pricing model with the following assumptions:

	2003	2002
Assumptions		
Dividend yield	3.6%	3.0%
Volatility	36.5%	29.9%
Risk-free interest rate	4.7%	5.2%
Expected option lives (in years)	5.9	5.9
Weighted average fair value of each option ($/option)	4.78	5.33

A summary of the status of the stock option plans as at December 31, 2003 and 2002, and changes during the years ended on those dates is presented below:

	2003		2002	
	Options (in millions of shares)	Weighted average exercise price	Options (in millions of shares)	Weighted average exercise price
		$		$
Outstanding, beginning of year	10.9	14.75	8.9	15.18
Granted	2.3	10.94	2.3	13.32
Cancelled	(0.2)	16.93	(0.3)	17.87
Outstanding, end of year	13.0	13.95	10.9	14.75
Options exercisable, end of year	7.9	15.20	5.9	16.21

The following table summarizes information about stock options outstanding at December 31, 2003:

	Options outstanding			Options exercisable	
Range of exercise prices	Options outstanding (in millions of shares)	Average remaining life (in years)	Weighted average exercise price	Options exercisable (in millions of shares)	Weighted average exercise price
			$		$
$9.74 to $10.97	2.3	9	10.94	0.1	9.82
$11.62 to $12.23	1.9	7	11.82	1.0	11.81
$12.86 to $13.33	2.4	8	13.32	0.8	13.32
$13.42 to $14.27	1.5	6	13.45	1.1	13.45
$14.40 to $15.99	2.4	5	14.45	2.4	14.45
$16.18 to $17.94	0.9	2	17.49	0.9	17.49
$18.50 to $21.53	1.6	4	19.35	1.6	19.35
	13.0	6	13.95	7.9	15.20

12. SUPPLEMENTAL CASH FLOW INFORMATION

(in millions of Canadian dollars)

	2003	2002	2001
	$	$	$
Changes in non-cash operating working capital from continuing operations			
Accounts receivable	173	(64)	227
Inventories	7	54	(48)
Prepaid expenses	(3)	(10)	1
Accounts payable and accrued liabilities	(19)	(46)	(231)
	158	(66)	(51)
Non-cash transactions excluded from consolidated cash flows			
Additions of property, plant and equipment included in accounts payable at year-end	50	29	34
Cash outflows (inflows) from operations related to			
Interest on long-term debt	387	430	465
Income taxes	(10)	27	27

Cash and cash equivalents consist of cash on hand, demand deposits and banker's acceptances and commercial papers with a maturity of three months or less from the date of purchase that are recorded at cost, which approximates market value.

As at December 31, cash and cash equivalents are comprised of:

	2003	2002
	$	$
Cash	43	134
Banker's acceptances	10	12
	53	146

13. INVENTORIES

(in millions of Canadian dollars)

	2003	2002
	$	$
Newsprint and value-added groundwood papers	167	163
Wood products	106	104
Logs, chips and other raw materials	192	213
Production and maintenance supplies	290	302
	755	782

14. INVESTMENTS

(in millions of Canadian dollars)

	2003	2002
	$	$
Investments in companies and other entities subject to significant influence		
SFK GP (note 3a and note 25)	148	148
Private	41	41
Investments in other private companies, at cost	84	75
	273	264

15. PROPERTY, PLANT AND EQUIPMENT

(in millions of Canadian dollars)

	2003			2002		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	$	$	$	$	$	$
Buildings, pulp and paper mill production equipment	7,914	2,409	5,505	8,161	1,931	6,230
Sawmill production equipment	594	365	229	576	326	250
Woodlands, roads, timberlands, camps and equipment	327	132	195	325	123	202
Hydroelectric power plants	473	89	384	450	76	374
Construction in progress	108	–	108	82	–	82
	9,416	2,995	6,421	9,594	2,456	7,138

During the year, interest amounting to $4 million (2002 – $2 million, 2001 – $8 million) has been capitalized in connection with capital projects.

During 2003, the Company recorded a write-off of $67 million relating to the permanent closure of two paper machines, one in Sheldon, Texas and one in Port-Alfred, Québec. During 2002, the Company recorded a write-off of $12 million relating to the existing thermomechanical pulp mill at its Thorold, Ontario mill. During 2001, a write-off of $33 million was recorded relating to the thermomechanical pulp mill at its Sheldon mill. The related expenses are included in amortization of plant and equipment in the consolidated statement of earnings.

16. INTANGIBLE ASSETS
(in millions of Canadian dollars)

	2003			2002		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	$	$	$	$	$	$
Water rights	500	47	453	500	34	466
Cutting rights and land use rights	81	45	36	77	42	35
	581	92	489	577	76	501

17. OTHER ASSETS
(in millions of Canadian dollars)

	2003	2002
	$	$
Deferred financing fees	39	34
Other	52	40
	91	74

Amortization of deferred financing fees amounted to $6 million during the year (2002 – $5 million, 2001 – $7 million). During 2002, due to an early retirement of debt, the Company recorded a write-off of $2 million for unamortized deferred financing fees. There were no such amounts in 2003 and 2001.

18. LONG-TERM DEBT
(in millions of Canadian dollars)

a) Recourse

	2003	2002
	$	$
Canadian and U.S. revolving facilities bearing interest at floating rates based on bankers' acceptance, prime, U.S. base rate or LIBOR, maturing in 2005 (US$90 million; 2002 – U.S. portion was US$15 million)	117	49
Canadian and U.S. term loans bearing interest at floating rates based on bankers' acceptance, prime, U.S. base rate or LIBOR, maturing in 2005 (2002 – US$344 million)	–	543
US$401 million 8.30% notes due August 1, 2005	520	633
US$300 million 6.95% notes due December 15, 2006	389	473
US$200 million 7.625% notes due May 15, 2007	259	315
US$250 million 6.95% notes due April 1, 2008	305	370
US$150 million 5.25% notes due June 20, 2008	195	–
US$250 million 7.875% notes due August 1, 2009	316	385
US$500 million 8.55% notes due August 1, 2010	648	789
US$350 million 6.00% notes due June 20, 2013	454	–
US$100 million 7.40% debentures due April 1, 2018	112	139
US$250 million 7.50% debentures due April 1, 2028	270	338
US$250 million 8.50% debentures due August 1, 2029	306	376
US$450 million 8.85% debentures due August 1, 2030	583	710
Other	2	11
	4,476	5,131
Less: Due within one year	2	38
	4,474	5,093

In June 2003, the Company merged its revolving facilities. The combined $800 million revolving facility now matures in June 2005 and no payments are required until that date. Available liquidities were $635 million as at December 31, 2003 ($712 million in 2002).

In June 2003, the Company issued US$150 million 5.25% notes due 2008 and US$350 million 6.00% notes due 2013. The net proceeds of these issues were used to repay bank indebtedness.

Certain debt agreements contain restrictive covenants. In addition, the bank credit facility requires the Company to meet specific financial ratios, which are met as at December 31, 2003.

b) Non-recourse

The Company's portion of the long-term debt of Alabama, Alabama Recycling, its U.S., Asian and other joint ventures is with recourse only to the assets of these respective entities. These loans are described as non-recourse as they have no recourse to the parent company but are secured as at December 31, 2003, by $573 million of assets and consist of the following debt:

	2003	2002
	$	$
Alabama		
US$123 million floating-rate term loan, maturing in 2004 (2002 – US$76 million)	159	120
Alabama Recycling		
2002 – US$4 million 10.50% senior notes, maturing in 2004	–	6
Augusta		
US$6 million 10.01% senior secured notes, maturing in 2004 (2002 – US$13 million)	8	20
US$25 million 7.70% senior secured notes, maturing in 2007	31	37
PanAsia		
US$46 million floating-rate loans, maturing in 2006-2007 (2002 – US$54 million)	59	86
Korean Won 108 billion fixed-rate loans, maturing 2004-2008 (2002 – Korean Won 115 billion)	116	149
Other borrowing facilities	81	55
Other	28	29
	482	502
Less: Due within one year	315	187
	167	315

PanAsia has lines of credit of US$90 million bearing prevailing market interest rates. The available portion of the credit facilities was US$65 million as at December 31, 2003 and US$90 million as at December 31, 2002.

Joint venture distributions are subject to certain restrictions until these loans are repaid in accordance with the loan agreements.

c) Scheduled long-term debt repayments

	Recourse debt	Non-recourse debt
	$	$
2004	2	315
2005	637	55
2006	389	36
2007	259	46
2008	500	8
Thereafter	2,689	22
	4,476	482

d) Fair value of long-term debt

The estimated fair value of the long-term debt at the year-end dates is as follows and has been determined based on management's best estimate of the fair value to renegotiate debt with similar terms at the respective year-end dates:

	2003	2002
	$	$
Recourse	4,785	5,505
Non-recourse	486	504
	5,271	6,009

19. EMPLOYEE FUTURE BENEFITS

(in millions of Canadian dollars)

Defined contributions plans

The Company contributes to several defined contributions, multi-employer and 401(k) plans. The pension expense under these plans is equal to the Company's contribution. The 2003 pension expense was $10 million under these plans (2002 – $11 million, 2001 – $10 million).

Defined benefit plans

The Company maintains contributory defined benefit pension plans covering certain groups of employees. The Company has an obligation to ensure that these plans have sufficient funds to pay the benefits earned. These plans provide pensions based on length of service and certain average employee earnings. The pension expense and the obligation related to the defined benefit plans are actuarially determined using management's most probable assumptions.

Other benefit plans

The Company provides other defined benefit plans consisting of group health care and life insurance benefits to eligible retired employees and their dependents.

Information about the Company's defined benefit pension plans and other benefit plans in aggregate, is as follows:

	Pension benefit plans		Other benefit plans	
	2003	2002	2003	2002
	$	$	$	$
Change in accrued benefit obligation				
Accrued benefit obligation, beginning of year	3,287	3,046	199	174
Service cost	72	75	3	4
Interest cost	207	206	12	14
Plan amendments	1	23	–	–
Actuarial loss (gain) attributable to experience and other elements	99	139	(7)	27
Settlement	–	(21)	–	–
Curtailment and special early retirement	9	3	(8)	(8)
Foreign exchange loss (gain)	(39)	8	(15)	–
Benefits paid	(229)	(192)	(13)	(12)
Accrued benefit obligation, end of year	3,407	3,287	171	199
Change in plan assets				
Fair value of plan assets, beginning of year	2,496	2,665	–	–
Actual return on plan assets	310	(92)	–	–
Employer's contributions	94	107	13	12
Plan participants' contributions	25	28	–	–
Benefits paid	(229)	(192)	(13)	(12)
Settlement	–	(21)	–	–
Foreign exchange gain and other elements	15	1	–	–
Fair value of plan assets, end of year	2,711	2,496	–	–
Funded status of the plans				
Funded status of the plans (deficit)	(696)	(791)	(171)	(199)
Unrecognized prior service cost	39	45	(4)	2
Unrecognized actuarial loss	711	759	32	50
Other components	2	(2)	1	1
Net amount recognized	56	11	(142)	(146)

As at December 31, 2003, for the pension plans with an accrued benefit obligation in excess of fair value plan assets, the accrued benefit obligation and the fair value of defined benefit plan assets were $3,407 million and $2,711 million respectively (2002 – $3,287 million and $2,496 million).

Defined benefit pension and other benefit costs of these plans are as follows:

	2003	2002	2001
	$	$	$
Current service cost	50	52	43
Interest cost on earned benefit obligations	219	220	212
Expected return on plan assets	(218)	(239)	(229)
Curtailment and special early retirement	14	10	(4)
Amortization of prior service cost	5	6	4
Amortization of net actuarial loss	3	1	–
Net cost	73	50	26

Weighted average assumptions are as follows:

	2003	2002	2001
Discount rate	6.25%	6.50%	6.75%
Expected return on plan assets	7.75%	8.00%	8.00%
Rate of compensation increase	4.00%	3.60%	3.55%

Regarding the measurement purpose for other benefit plans, a 9.65% weighted-average annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. The rate was assumed to decrease gradually to 5.83% for 2013 and remain at that level thereafter.

An increase of 1% of this rate would have the following impact on:

	Increase of 1%
	$
Net periodic benefit cost	1
Accrued benefit obligation	12

20. FOREIGN CURRENCY TRANSLATION ADJUSTMENT

(in millions of Canadian dollars)

Regarding investments in self-sustaining operations, the foreign currency translation adjustment represents the unrealized gain or loss on the Company's net investment. These valuation adjustments are recognized in earnings only when there is a reduction in the Company's investment in the respective foreign operations.

	2003	2002
	$	$
Foreign currency translation adjustment, beginning of year	49	17
Unrealized gains (losses) for the year on translation of net assets	(315)	32
Foreign currency translation adjustment, end of year	(266)	49

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Foreign exchange risk management

The Company uses various financial instruments to reduce its exposure to foreign currency exchange risk. Furthermore, the long-term debt expressed in U.S. dollars is also considered an effective economic hedge against the exchange risk related to the future revenue streams originating from sales denominated in U.S. dollars.

The Company had the following U.S. dollar forward contracts outstanding at December 31:

	Contract rates to convert US$1 into Canadian dollar		Contract amount (in millions of U.S. dollars)	
Maturity	2003	2002	2003	2002
			$	$
2003	–	1.4692	–	449
2004	**1.4918**	1.4918	**5**	5

The Company had the following U.S. dollar zero cost tunnels contracts outstanding at December 31:

	Contract rates to convert US$1 into Canadian dollar				Contract amount (in millions of U.S. dollars)	
	Average floor	Average ceiling	Average floor	Average ceiling		
Maturity	2003		2002		2003	2002
					$	$
2003	–	–	1.5571	1.6227	–	281
2004	**1.4695**	**1.5321**	1.5757	1.6247	**540**	208
2005	**1.3579**	**1.4206**	–	–	**239**	–

The Company had the following euro zero cost tunnels contracts outstanding at December 31:

	Contract rates to convert 1 euro into Canadian dollar				Contract amount (in millions of euros)	
	Average floor	Average ceiling	Average floor	Average ceiling		
Maturity	2003		2002		2003	2002
					€	€
2004	**1.5649**	**1.6162**	–	–	**72**	–

The gains and losses on foreign exchange contracts are recognized in earnings when the related hedged revenue is recorded. As at December 31, 2003, the Company would have received $102 million (2002 – paid $55 million) had it settled its then outstanding foreign exchange contracts. Aside from the potential obligation as at December 31, 2002, there was also, at that time, an amount of $11 million receivable from a past business acquisition, resulting from foreign exchange contracts of Abitibi-Consolidated that were marked to market. There is no such receivable as at December 31, 2003.

b) Interest rate risk management

The Company uses interest rate swap agreements to manage the fixed and floating interest rate mix of its recourse debt portfolio and related cost of borrowing whereby it is committed to exchange with the contracting parties, at specific intervals, the difference between the fixed and floating interest rates or within a specified range of interest rates calculated by reference to the notional amounts. Interest expense on the debt is adjusted to include payments made or received under these agreements. The related amount receivable from counterparts is included in the accounts receivable.

As at December 31, 2003, in order to hedge the fair value of a portion of the debt, the Company had US$850 million (2002 – US$200 million) of interest rate swap contracts designated as hedges on the interest expense of various notes maturing in 2005 through 2010. The interest paid under these agreements is based on the six months LIBOR rate.

The Company would have paid $18 million (2002 – received $17 million) had it settled its interest rate swap contracts outstanding as at December 31, 2003.

As at December 31, 2003, the Company had $8 million (2002 – $11 million) of deferred gain realized on the early termination of interest rates swap contracts. This gain will be amortized against interest expense over the remaining term of the original contracts maturing in 2006 and 2007.

c) Credit risk management

The Company is exposed to credit risk on the accounts receivable from its customers. In order to manage its credit risk, the Company has adopted policies, which include the analysis of the financial position of its customers and the regular review of their credit limits. The Company also subscribes to credit insurance and, in some cases, requires bank letters of credit. As a result, the Company does not have significant exposure to any individual customer. Its customers are mainly in the newspaper publishing, commercial printing, paper converting, advertising and lumber wholesaling and retailing businesses.

The Company has ongoing programs to sell up to US$500 million of accounts receivable, with minimal recourse, to major financial institutions pursuant to sale agreements. The book value of the retained interests, evaluated using a fair value model, approximates fair value. The Company acts as a service agent and administers the collection of the accounts receivable sold pursuant to these agreements. Since the fees received for servicing the accounts receivable approximate the value of services rendered, no servicing asset or liability has been recorded.

Under these programs, the outstanding balance as at December 31, 2003 was $504 million (2002 – $472 million). The net cash received during the year from these financial institutions, $116 million (2002 – $20 million) is presented as a change in non-cash operating working capital components.

The Company is exposed to credit risk on the favorable fair value of its derivative financial instruments. In order to mitigate that risk, the Company contracts its derivative financial instruments with credit worthy financial institutions.

d) Fair value of financial instruments

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates their fair value because of the short-term maturities of these items.

The differences between the carrying and the fair value of financial instruments contracted by the Company arise in part, from changes in interest and exchange rates between the inception dates of these contracts and the balance sheet date. The Company does not hold financial instruments for speculative purposes and the effect on the financial statements may vary depending on future changes in interest and exchange rates. See note 18 "Long-term debt" for a comparison of the carrying and the fair values of the Company's long-term debt.

22. COMMITMENTS AND GUARANTEES

a) Capital expenditures

Newsprint mill, PanAsia

On September 10, 2003, PanAsia announced the creation of a 65-35 percent joint venture with Hebei Longteng Paper Corporation of China to build and operate a newsprint mill in the industrially developed Hebei Province of China. The total cost of this project for the joint venture is estimated at approximately US$300 million. As at December 31, 2003, the Company's portion of the costs incurred by PanAsia was US$11 million and its portion of the firm commitments made by PanAsia in connection with this capital project is US$48 million.

Conversion project to Equal Offset®, Alma, Québec

In December 2002, the Company announced the conversion of the newsprint machine at its mill in Alma, Québec, to the production of the Company developed product known as *Equal Offset®*. The total cost of this program is estimated at $181 million, including capitalized interest. As at December 31, 2003, $106 million had been incurred, and firm commitments of $33 million have been taken in connection with this capital project.

Rehabilitation of power plant, Iroquois Falls, Ontario

In 2002, the Company began the rehabilitation of its Iroquois Falls, Ontario, hydro-electric power plant. The total cost of this project is estimated to be $35 million. As at December 31, 2003, the Company had incurred costs of $10 million and had firm commitments of $24 million in connection with this project.

Other

Under a water power lease renewal at one of its Hydro-Saguenay hydroelectric facilities, the Company is required to make capital investments in the Saguenay/Lac-Saint-Jean region, Québec, from April 1998 to December 2011, totalling the equivalent of $390 million 1998 dollar. As at December 31, 2003, the Company had fulfilled 85% of this commitment.

b) Fibre supply

Historically, fibre was provided to the Saint-Félicien mill by the Company. Since the sale of the Mill to SFK GP (note 3), SFK GP has a 20-year fibre supply agreement with the Company. Subject to certain conditions, the price of fibre payable by SFK GP will be tied to the price of pulp for the first 740,000 tonnes of fibre per year.

c) Other

In the normal course of its business activities, the Company has other commitments under various equipment and office operating leases for which no material cash outflows are expected.

d) Indemnities

The Company has, over time, sold portions of its business, including, most recently, the sale of the Saint-Félicien pulp mill to SFK Pulp General Partnership. Pursuant to these sale agreements, the Company may have to indemnify the purchasers because of representations, guarantees and related indemnities made by the Company on issues such as tax, environment, litigation, employment matters or as a result of other indemnification obligations. These types of indemnification guarantees generally extend for periods not exceeding 10 years.

The Company is unable to estimate the potential liability for these types of indemnification guarantees as the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. However, the maximum guarantee is not to exceed the proceeds from the disposal.

Historically, the Company has not incurred any significant expense under such agreements.

23. CONTINGENT LIABILITIES

In the normal course of its business activities, the Company is subject to a number of claims and legal actions that may be made by customers, suppliers and others in respect of which either an adequate provision has been made or for which no material liability is expected.

24. RELATED PARTY TRANSACTIONS

(in millions of Canadian dollars)

As at December 31, 2003, the Company owned a 25% interest in SFK GP. The following table summarizes the transactions between the Company and SFK GP. These transactions are in the normal course of operations and have been carried out on the same terms the Company would have applied to unrelated parties and were accounted for at the exchange value, except for the fibre sales contract referred to in note 22.

	2003	2002
	$	$
Fibre sales	92	36
Purchases of market pulp	25	13
Accounts receivable from SFK GP	2	5

25. SUBSEQUENT EVENT

On February 10, 2004, the Company announced the sale of its remaining 25% interest in SFK GP for gross proceeds of $118.5 million. The transaction closed on February 27, 2004.

26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(in millions of Canadian dollars, except per share amounts)

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP which, in the case of the Company, are in conformity in all material respects with US GAAP, with the following exceptions:

a) The Company has outstanding foreign exchange contracts, which it designates as a hedge of anticipated future revenue. Since January 1, 2001, the Financial Accounting Standard Board ("FASB") Statement 133 "*Accounting for Derivative Instruments and Hedging Activities*" requires accounting for derivatives in the balance sheet at fair value. There was no transition amount upon the adoption of FASB Statement 133. Up to December 31, 2000, under US GAAP, any gains or losses on such foreign exchange forward contracts were recognized to income immediately.

b) Under Canadian GAAP, interest rate swap contracts' fair value is not recognized in the financial statements. In US GAAP under FASB Statement 133, interest rate swap contracts are designated as an effective hedge of the debt and their fair value is presented with long-term debt.

   In 2002, the Company terminated prior to maturity some of its interest rate swap contracts. Under Canadian GAAP, the gain arising from these transactions is recorded as a deferred gain and amortized in reduction of interest expense, on the initial term of interest payments being hedged by the contracts. Under US GAAP, gain is deferred by adjusting long-term debt value. There is no difference on the amortization method to use.

c) In Canada, gains or losses on early retirement of long-term debt are included in earnings before extraordinary items. In the United States, up to December 31, 2002, those items were specifically classified as extraordinary.

d) The Company recorded the disposal of its investment in the Saint-Félicien mill as discontinued operations. Under US GAAP, in accordance with FASB Statement 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"* the disposal would not be accounted for as discontinued operations as the Company still has had an involvement in the operations of the mill through its remaining participation in SFK GP up to December 31, 2003.

e) The Company accounts for its joint venture investments using the proportionate consolidation method. Under US GAAP, these joint ventures would be accounted for using the equity method.

f) Up to July 1, 2001, Canadian GAAP permitted the acquirer in a business combination accounted as a purchase to adjust to fair value specific assets and obligations of the acquirer as if they were those of the acquired Company. These are referred to as the duplicate property provisions. US GAAP would not have permitted this accounting treatment in accordance with Emerging Issues Task Force ("EITF") Abstract 95-3, *"Recognition of Liabilities in Connection with a Purchase Business Combination"*.

g) The Company deducts its distribution costs from gross revenue in determining "Net sales" on its consolidated statement of earnings. Under US GAAP, in accordance with EITF Abstract 00-10 *"Accounting for Shipping and Handling Fees and Costs"*, these costs would be included in the operating expenses. The distribution costs amount deducted from gross revenue under Canadian GAAP was $577 million in 2003 (2002 – $582 million, 2001 – $581 million).

h) The provisions of FASB Statement 87, *"Employers' Accounting for Pensions"* required the Company to record an additional liability for plans where the accumulated benefit obligation exceeds plans assets fair value. For these plans, an intangible asset is recorded up to the extent of unrecognized past service costs. The balance is recorded net of income tax in other comprehensive income. There are no such provisions under Canadian GAAP.

i) The FASB has issued FIN-46, *"Consolidation of Variable Interest Entities"*, which is effective for fiscal year beginning on or after June 15, 2003. This statement addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. In Management's opinion, the implementation of this guideline would not have any impact on the Company's financial statements.

The following information is presented in accordance with US GAAP, reflecting the adjustments disclosed above.

Effects on the consolidated net earnings

	2003	2002	2001
	$	$	$
Net earnings, as reported in the consolidated statement of earnings per Canadian GAAP	**179**	259	106
Current year adjustments			
Derivative financial instruments (a)	**18**	23	25
Write-off of financing charges and foreign exchange losses on early debt retirement (c)	**–**	10	–
Goodwill amortization (f)	**–**	–	1
Income tax recovery	**(6)**	(5)	(50)
Earnings before extraordinary item, as adjusted per US GAAP	**191**	287	82
Extraordinary item net of applicable income taxes (c)	**–**	(7)	–
Net earnings, as adjusted per US GAAP	**191**	280	82
Per share data (basic and diluted)			
Net earnings, as reported per Canadian GAAP	**0.41**	0.59	0.24
Net earnings, as adjusted per US GAAP	**0.43**	0.64	0.19

All alphabetical references in this table relate to Note 26.

Condensed consolidated balance sheet

	2003		2002	
	Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
	$	$	$	$
Current assets (a)	1,238	1,097	1,520	1,242
Investments (e)	273	858	264	1,071
Property, plant and equipment	6,421	5,605	7,138	5,923
Intangible assets (h)	489	524	501	501
Future income taxes	296	304	221	221
Other assets	91	84	74	63
Goodwill (f)	1,377	1,334	1,426	1,383
	10,185	9,806	11,144	10,404
Current liabilities (a) (b)	1,365	1,166	1,325	1,245
Long-term debt (b)	4,641	4,439	5,408	4,921
Employee future benefits (h)	86	405	135	536
Non-controlling interests	167	125	70	37
Deferred gain	122	122	134	134
Future income taxes (a) (h)	934	851	986	806
Shareholders' equity	2,870	2,698	3,086	2,725
	10,185	9,806	11,144	10,404

All alphabetical references in this table relate to Note 26.

Condensed consolidated cash flows

	2003	2002	2001
			US GAAP
	$	$	$
Cash flows from (used in) operating activities	(8)	194	818
Cash flows from (used in) financing activities	158	(506)	(48)
Cash flows from (used in) investing activities	(229)	259	(697)
Currency translation adjustment on cash	(9)	(4)	–
Cash and cash equivalents, end of year	(12)	76	133

Other disclosure

Under US GAAP, the Company is required to prepare a distinct statement of comprehensive income. This statement would be as follows for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
	$	$	$
Net earnings, as adjusted per US GAAP	191	280	82
Other comprehensive income			
Cumulative translation adjustment on investment in foreign subsidiaries	(315)	32	57
Gain (loss) on derivative financial instruments net of taxes of $47 million (2002 – $22 million, 2001 – $25 million) (a)	96	48	(74)
Additional minimum liability adjustments, net of taxes of $37 million (2002 – $128 million, 2001 – $2 million) (h)	81	(275)	(5)
Comprehensive income	62	85	60

All alphabetical references in this table relate to Note 26.

2003 Quarterly Financial Information
Consolidated Statement of Earnings

(unaudited)
(in millions of Canadian dollars, except as noted)

	1st quarter	2nd quarter	3rd quarter	4th quarter	Year 2003
	$	$	$	$	$
Net sales	1,192	1,210	1,176	1,208	**4,786**
Cost of products sold	1,019	1,054	1,003	1,060	**4,136**
Selling, general and administrative expenses	46	44	45	46	**181**
Closure costs	–	–	–	67	**67**
Amortization of plant and equipment	158	154	155	220	**687**
Amortization of intangible assets	4	4	4	4	**16**
Goodwill impairment	–	–	–	21	**21**
Operating profit (loss) from continuing operations	(35)	(46)	(31)	(210)	**(322)**
Financial expenses	102	97	97	93	**389**
Loss (gain) on translation of foreign currencies	(274)	(298)	(13)	(156)	**(741)**
Other expenses	3	2	3	1	**9**
Earnings (loss) from continuing operations before the following items	134	153	(118)	(148)	**21**
Income tax expense (recovery)	(43)	7	(49)	(66)	**(151)**
Non-controlling interests	(4)	(1)	–	(5)	**(10)**
Earnings (loss) from continuing operations	181	147	(69)	(77)	**182**
Earnings (loss) from discontinued operations	–	–	–	(3)	**(3)**
Net earnings (loss)	181	147	(69)	(80)	**179**
Earnings (loss) per share (basic and diluted)					
From continuing operations	0.41	0.34	(0.16)	(0.18)	**0.41**
Net earnings (loss)	0.41	0.34	(0.16)	(0.18)	**0.41**
Weighted average number of common shares outstanding (in millions)	440	440	440	440	**440**
Common shares outstanding, end of period (in millions)	440	440	440	440	**440**
SHIPMENTS					
Newsprint [1]	1,116	1,179	1,115	1,201	**4,611**
Value-added groundwood papers [1]	434	455	458	463	**1,810**
Wood products [2]	453	535	466	476	**1,930**

(1) in thousands of tonnes
(2) in millions of board feet

2002 Quarterly Financial Information
Consolidated Statement of Earnings

(unaudited)
(in millions of Canadian dollars, except as noted)

	1st quarter $	2nd quarter $	3rd quarter $	4th quarter $	Year 2002 $
Net sales	1,195	1,327	1,284	1,316	5,122
Cost of products sold	948	1,032	1,048	1,079	4,107
Selling, general and administrative expenses	44	39	40	46	169
Closure costs	–	–	–	–	–
Amortization of plant and equipment	158	158	163	169	648
Amortization of intangible assets	4	4	4	4	16
Goodwill impairment	–	–	–	–	–
Operating profit (loss) from continuing operations	41	94	29	18	182
Financial expenses	118	115	120	91	444
Loss (gain) on translation of foreign currencies	3	(225)	192	(24)	(54)
Other expenses	4	2	4	3	13
Earnings (loss) from continuing operations before the following items	(84)	202	(287)	(52)	(221)
Income tax expense (recovery)	(29)	–	(73)	(79)	(181)
Non-controlling interests	2	2	1	2	7
Earnings (loss) from continuing operations	(57)	200	(215)	25	(47)
Earnings (loss) from discontinued operations	7	3	292	4	306
Net earnings (loss)	(50)	203	77	29	259
Earnings (loss) per share (basic and diluted)					
From continuing operations	(0.13)	0.45	(0.49)	0.06	(0.11)
Net earnings (loss)	(0.11)	0.46	0.17	0.07	0.59
Weighted average number of common shares outstanding (in millions)	440	440	440	440	440
Common shares outstanding, end of period (in millions)	440	440	440	440	440
SHIPMENTS					
Newsprint (1)	1,026	1,185	1,197	1,216	4,624
Value-added groundwood papers (1)	406	453	458	453	1,770
Wood products (2)	452	461	428	418	1,759

(1) in thousands of tonnes
(2) in millions of board feet

Historical Review

(in millions of Canadian dollars, except as noted)

	2003	2002	2001	2000
	$	$	$	$
EARNINGS (3)(4)(5)(6)				
Net sales	4,786	5,122	5,811	5,370
Cost of products sold	4,136	4,107	4,018	3,814
Selling, general and administrative expenses	181	169	172	167
Closure costs	67	–	–	–
Amortization of plant and equipment	687	648	640	489
Amortization of intangible assets	16	16	16	12
Goodwill impairment	21	–	–	–
Operating profit (loss) from continuing operations	(322)	182	965	888
Financial expenses	389	444	470	407
Loss (gain) on translation of foreign currencies	(741)	(54)	265	95
Other expenses (income)	9	13	13	(7)
Earnings (loss) from continuing operations before the following items	21	(221)	217	393
Income tax expense (recovery)	(151)	(181)	84	147
Non-controlling interests	(10)	7	23	16
Goodwill amortization	–	–	40	30
Earnings (loss) from continuing operations	182	(47)	70	200
Earnings (loss) from discontinued operations	(3)	306	36	93
Net earnings	179	259	106	293
Net earnings per share (1)	0.41	0.59	0.24	0.76
Dividends declared per share (1)	0.175	0.400	0.400	0.360
BALANCE SHEET (3)(5)(6)				
Current assets	1,238	1,520	1,582	1,599
Current assets of discontinued operations	–	–	58	60
Property, plant and equipment	6,421	7,138	7,531	7,382
Intangible assets	489	501	517	532
Future income taxes (3)	296	221	99	16
Goodwill	1,377	1,426	1,420	1,337
Investments and other assets	364	338	155	124
Non-current assets of discontinued operations	–	–	106	108
Total assets	10,185	11,144	11,468	11,158
Current liabilities	1,365	1,325	1,406	1,688
Current liabilities of discontinued operations	–	–	9	10
Long-term debt	4,641	5,408	5,809	5,265
Future income taxes (3)	934	986	980	873
Other liabilities	208	269	204	257
Non-controlling interests	167	70	69	60
Non-current liabilities of discontinued operations	–	–	20	21
Shareholders' equity	2,870	3,086	2,971	2,984
Total liabilities and shareholders' equity	10,185	11,144	11,468	11,158
Book value per share (1)	6.52	7.01	6.75	6.78

1. Financial information per share and the number of shares have been calculated to reflect the three for two and the two for one stock split in 1999 and 1994, and the impact of share exchange based on reverse take-over method of purchase accounting in 2000.
2. "Cash flows" figures for 1997 to 2003 inclusively reflect CICA new recommendations. The entry was formerly "Changes in financial position".
3. Financial statements figures for 1998 to 2003 inclusively reflect CICA new recommendations regarding future income taxes and employee future benefits.
4. Financial results prior to April 18, 2000 represent Donohue Inc. operations only, and results of Abitibi-Consolidated are included only from that date.
5. Financial statements figures for 2000 to 2003 inclusively reflect CICA new recommendations regarding foreign currency translation.
6. Financial statements figures have been reclassified to conform to the current period presentation, including the presentation of discontinued activities.

1999	1998	1997	1996	1995	1994	1993
$	$	$	$	$	$	$
2,220	2,054	1,498	1,392	773	602	418
1,643	1,375	1,001	847	495	392	313
64	63	53	51	32	27	24
–	–	–	–	–	–	–
209	179	151	127	46	39	42
3	3	3	3	3	2	1
–	–	–	–	–	–	–
301	434	290	364	197	142	38
93	96	82	67	(6)	13	13
–	–	–	–	–	–	–
(14)	5	1	2	–	5	2
222	333	207	295	203	124	23
34	113	83	113	68	47	10
10	15	9	15	17	2	(2)
10	10	–	–	–	–	–
168	195	115	167	118	75	15
48	34	40	31	123	39	2
216	229	155	198	241	114	17
0.86	0.93	0.63	0.82	1.11	0.57	0.08
0.238	0.224	0.202	0.233	0.227	0.087	0.007
736	803	520	562	385	382	193
55	57	51	47	56	47	45
2,513	2,405	1,717	1,768	644	488	321
44	47	51	54	57	35	23
14	10	–	–	–	–	–
154	158	–	–	–	–	–
101	175	95	74	42	33	24
111	123	132	138	145	151	164
3,728	3,778	2,566	2,643	1,329	1,136	770
422	531	310	363	230	142	4
9	16	69	65	(10)	30	79
1,281	1,341	742	909	216	259	176
421	392	200	173	86	77	59
38	36	7	8	8	(5)	(4)
45	61	48	47	41	67	48
23	24	25	25	27	28	29
1,489	1,377	1,165	1,054	731	538	380
3,728	3,778	2,566	2,643	1,329	1,136	770
5.99	5.57	4.69	4.25	3.34	2.46	1.91

Historical Review

(in millions of Canadian dollars, except as noted)

	2003	2002	2001	2000
	$	$	$	$
CASH FLOWS [2][3][4][6]				
Continuing operating activities				
Earnings (loss) from continuing operations and items not affecting cash	**(97)**	309	1,041	912
Changes in non-cash operating working capital	**158**	(66)	(51)	183
Cash flows from continuing operating activities	**61**	243	990	1,095
Financing activities of continuing operations				
Net proceeds on issuance of shares	**2**	–	–	3
Increase in long-term debt	**1,595**	911	1,579	5,316
Repayment of long-term debt	**(1,334)**	(1,281)	(1,599)	(4,015)
Cash contributions by non-controlling interests in subsidiaries	**43**	–	–	–
Increase (decrease) of bank loan	**–**	–	–	–
Dividends paid to shareholders and to non-controlling shareholders of subsidiaries	**(118)**	(181)	(198)	(1,746)
Other	**(9)**	–	–	(90)
Cash flows from (used in) financing activities of continuing operations	**179**	(551)	(218)	(532)
Investment activities of continuing operations				
Additions to property, plant and equipment	**(262)**	(214)	(459)	(521)
Additions to intangible assets	**(4)**	–	–	–
Business acquisition, net of cash acquired	**–**	–	(286)	(41)
Acquisition of non-controlling interests in subsidiary companies	**–**	–	–	–
Net proceeds on disposal of discontinued operations	**–**	460	–	–
Other	**(46)**	(46)	16	9
Cash flows from (used in) investing activities of continuing operations	**(312)**	200	(729)	(553)
Cash generated by (used in) continuing operations	**(72)**	(108)	43	10
Cash generated by discontinued operations	**–**	51	38	90
Increase (decrease) in cash and cash equivalents	**(72)**	(57)	81	100
SHIPMENTS				
Newsprint (in thousands of tonnes)	**4,611**	4,624	4,456	4,667
Value-added groundwood papers (in thousands of tonnes)	**1,810**	1,770	1,761	1,406
Wood products (in millions of board feet)	**1,930**	1,759	1,704	1,828
RATIOS				
Return on shareholders' equity [3]	**6.0**	8.6	3.6	13.1
Net long-term debt to total capitalization	**0.618**	0.635	0.658	0.642

1. Financial information per share and the number of shares have been calculated to reflect the three for two and the two for one stock split in 1999 and 1994, and the impact of share exchange based on reverse take-over method of purchase accounting in 2000.
2. "Cash flows" figures for 1997 to 2003 inclusively reflect CICA new recommendations. The entry was formerly "Changes in financial position".
3. Financial statements figures for 1998 to 2003 inclusively reflect CICA new recommendations regarding future income taxes and employee future benefits.
4. Financial results prior to April 18, 2000 represent Donohue Inc. operations only, and results of Abitibi-Consolidated are included only from that date.
5. Financial statements figures for 2000 to 2003 inclusively reflect CICA new recommendations regarding foreign currency translation.
6. Financial statements figures have been reclassified to conform to the current period presentation, including the presentation of discontinued activities.

1999	1998	1997	1996	1995	1994	1993
$	$	$	$	$	$	$
398	403	314	362	193	136	70
(78)	29	(6)	(152)	80	87	9
320	432	308	210	273	223	79
10	8	6	181	1	64	1
144	874	306	957	87	86	78
(140)	(373)	(574)	(284)	(126)	(75)	(115)
–	–	–	–	–	–	–
(12)	(2)	2	4	(3)	19	(22)
(68)	(71)	(59)	(71)	(56)	(18)	(2)
(6)	(6)	(6)	(15)	(1)	(13)	(1)
(72)	430	(325)	772	(98)	63	(61)
(287)	(110)	(75)	(92)	(136)	(56)	(20)
–	–	–	–	–	–	–
(82)	(675)	(9)	(1,068)	(38)	(105)	–
–	–	–	–	(100)	–	–
–	–	–	–	–	–	–
–	(1)	6	–	–	1	–
(369)	(786)	(78)	(1,160)	(274)	(160)	(20)
(121)	76	(95)	(178)	(99)	126	(2)
52	(15)	48	122	80	2	2
(69)	61	(47)	(56)	(19)	128	–
2,275	1,848	1,439	1,189	540	544	478
271	248	98	89	48	16	–
1,476	1,325	1,275	1,136	971	827	654
15.1	18.0	14.0	22.2	38.0	24.8	4.6
0.468	0.478	0.406	0.480	0.097	0.148	0.259

Statement of corporate governance practices

As a listed issuer on the Toronto Stock Exchange (the "TSX"), the Company is required to disclose its approach to corporate governance on an annual basis. The disclosure must make specific reference to each of the TSX's guidelines on corporate governance (the "TSX Guidelines") and, where the approach is different from those Guidelines or where the Guidelines do not apply, must explain the differences or the reasons for their inapplicability.

The Company's shares are also listed on the New York Stock Exchange (the "NYSE"). The NYSE recently adopted new corporate governance rules (the "NYSE Standards"). As a foreign private issuer on the NYSE, the Company is generally permitted to comply with Canadian governance standards in lieu of the NYSE Standards applicable to U.S. domestic issuers. The Company will, however, be required to follow certain requirements applicable to audit committees and must disclose any practices that differ significantly from the NYSE Standards.

The U.S. *Sarbanes-Oxley Act of 2002* (the "Sarbanes Act") provides additional disclosure rules that apply to the Company addressing matters such as the reporting of concerns and complaints by employees and codes of ethics.

The Company's governance practices are believed by the Board to be in full alignment with the TSX Guidelines and the applicable requirements of the Sarbanes Act. The Company complies with all mandatory requirements of the NYSE. The Company is also in line with all other non-mandatory NYSE Standards, except as disclosed below. The Company reviews its practices on a continuing basis to ensure compliance with evolving laws and regulations. In this regard, the Board will consider the corporate governance guidelines published for comments in January 2004 by certain members of the Canadian Securities Administrators. The Company's governance practices as of February 24, 2004 are summarized below.

REVIEW OF TSX GUIDELINES AND OTHER GOVERNANCE STANDARDS

The following chart provides an analysis of the Company's governance practices against each of the fourteen TSX Guidelines. A discussion of the requirements under the Sarbanes Act and the NYSE Standards is also provided where appropriate.

The TSX Guidelines	Governance practices at Abitibi-Consolidated
1. Stewardship of the Corporation The board of directors of every corporation should explicitly assume responsibility for the stewardship of the corporation and, as part of the overall stewardship responsibility, should assume responsibility for the following matters: **Is the Company in alignment?** Yes	The Board oversees the management of the business and affairs of the Company and assumes the stewardship of the business of the Company. The Board reviews and approves significant decisions and/or transactions affecting the Company and its subsidiaries, such as major capital expenditures, acquisitions or divestitures, material contracts outside the ordinary course of business and finance transactions. The Board delegates the responsibility and authority for the day-to-day operation of the Company to the management of the Company. The Board has adopted a written charter setting out its responsibilities, a copy of which may be found on the Company website at **www.abitibiconsolidated.com**.
a. Strategic planning process adoption of a strategic planning process **Is the Company in alignment?** Yes	The Board contributes to the development of a strategic direction for the Company by: • reviewing, discussing and approving the Company's strategic planning and organizational structure and process; • reviewing, on an annual basis, the Company's principal opportunities and the processes that are in place to identify such opportunities; and • reviewing and approving the Company's strategic plan and the annual business plan, including operating and capital budgets. In addition to a formal session devoted exclusively to strategic planning, the Board also discusses key strategic issues at regular intervals.
b. Principal risks the identification of the principal risks of the corporation's business and ensuring implementation of appropriate systems to manage these risks **Is the Company in alignment?** Yes	The Board reviews the full range of business risks facing the Company, including strategic, financial, operational, leadership, partnership and reputation risks, as part of the annual strategic planning process described above. On an ongoing basis, the Board also monitors with management changes in the strategic environment, new key business risks and the implementation of appropriate systems to manage such risks. The Audit Committee is responsible for reviewing the Company's policies with respect to risk assessment and risk management systems and controls, especially in relation to derivatives, foreign currency exposure and insurance. The Audit Committee also reviews annually a report from the Environmental, Health & Safety Committee on environmental accruals that could have a material impact on the financial statements.

The TSX Guidelines	Governance practices at Abitibi-Consolidated
c. Succession planning succession planning, including appointing, training and monitoring senior management **Is the Company in alignment?** Yes	The Board assumes directly the following responsibilities in matters of succession planning: • selecting and appointing the Chief Executive Officer; • on the recommendation of the HRC Committee, reviewing the performance and approving the compensation of the Chief Executive Officer and senior management, taking into consideration Board expectations and pre-approved objectives; and • on the recommendation of the HRC Committee, reviewing the essential elements of short-term and long-term senior executive succession planning. The Board has also delegated to the Human Resources and Compensation Committee additional succession planning responsibilities, including: • reviewing and recommending to the Board the selection and appointment of the Chief Executive Officer; • approving the hiring and promoting of senior management; and • reviewing management's plans and activities for the development of key managerial personnel. The Board has adopted a written charter for the HRC Committee setting out its responsibilities, a copy of which may be found on the Company website at **www.abitibiconsolidated.com**.
d. Communications policy communications policy for the corporation **Is the Company in alignment?** Yes	In accordance with its charter, the Board must ensure that the Company has in place comprehensive communications policies addressing how the Company should interact with analysts, investors, other stakeholders, and providing adequate procedures for compliance with the Company's continuous and timely disclosure obligations. The Company has in place a policy on disclosure, which provides guidelines for the communication of information to analysts, investors, other key stakeholders and the public. The policy on disclosure seeks to ensure that communications pertaining to the Company are timely, factual and accurate, as well as broadly disseminated in accordance with all applicable legal and regulatory requirements. The Company also developed a Corporate and Securities Compliance Program setting out procedures for the disclosure of Company information in compliance with securities and other legal requirements. In accordance with this program, the Board reviews the Company's major disclosure documents, including the annual management proxy circular, the annual information form, the annual report, the annual financial reports and related press releases. It is the Corporate Governance Committee's responsibility to review on a regular basis the Company's corporate compliance and disclosure processes and programs, including the policy on disclosure.

The TSX Guidelines

Governance practices at Abitibi-Consolidated

e. Integrity of internal control
the integrity of the corporation's internal control and management information systems.

Is the Company in alignment?
Yes

The Board, through the Audit Committee, monitors the integrity of internal corporate control procedures and management information systems to manage the Company's key business risks and ensure that the value of the underlying asset base is not eroded.

The Audit Committee's specific responsibilities regarding internal control procedures include:

- reviewing, with management, the Company's internal information control system;
- obtaining from the internal audit department and the Company's external auditor the major findings and internal control recommendations reported during the period under review, reviewing management's response and follow-up to such recommendations in order to monitor whether management has implemented an effective system of internal accounting control;
- reviewing policies and procedures for the receipt, retention and treatment of complaints from employees, shareholders and other stakeholders regarding accounting issues and financial reporting, internal controls and internal or external auditing matters; and
- reviewing with management the Company's financial computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.

The Board has adopted a written charter for the Audit Committee setting out its responsibilities, a copy of which may be found on the Company website at **www.abitibiconsolidated.com**.

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2. Board independence
The board of directors of every corporation should be constituted with a majority of individuals who qualify as "unrelated" directors.

An "unrelated director" is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding.

A related director is a director who is not an unrelated director.

Of all of the Company's directors, only John W. Weaver, the President and Chief Executive Officer, is a related and inside director. The Board has determined that all of its outside directors are currently unrelated directors for purposes of the TSX Guidelines, as explained in greater detail under the heading "Individual Unrelated Director" below.

The TSX Guidelines

If the corporation has a "significant shareholder", in addition to a majority of unrelated directors, the board should include a number of directors who do not have interests in or relations with either the corporation or the significant shareholder and which fairly reflects the investment in the corporation by shareholders other than the significant shareholder. A "significant shareholder" is a shareholder with the ability to exercise a majority of the votes for the election of the board of directors.

Governance practices at Abitibi-Consolidated

The Company does not have a significant shareholder.

Is the Company in alignment?

Yes

NYSE STANDARDS

Under the recently adopted NYSE Standards, there is a similar requirement that a majority of directors be "independent". Such independence is contingent on an affirmative determination by the Board that a director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Certain listed relationships serve as bars to independence. The prohibition generally extends for a period of three years following the end of the relationship. The three-year "look back" rule is being phased-in by applying only a one-year "look-back" period until November 4, 2004.

Under the NYSE Standards currently in effect (including relevant transition rules for look-back period purposes), the Board has determined that only John W. Weaver would not be considered independent. However, but for the transition rules of the NYSE Standards, Mr. Ward would not be considered independent under the NYSE Standards because of fees paid by the Company to his law firm in 2002.

The TSX Guidelines	Governance practices at Abitibi-Consolidated
3. Individual unrelated directors The application of the definition of "unrelated director" to the circumstances of each individual director should be the responsibility of the board which will be required to disclose on an annual basis whether the board has a majority of unrelated directors or, in the case of a corporation with a significant shareholder, whether the board is constituted with the appropriate number of directors which are not related to either the corporation or the significant shareholder. Management directors are related directors. The board will also be required to disclose on an annual basis the analysis of the application of the principles supporting this conclusion. **Is the Company in alignment?** Yes	In determining whether directors are related, the Board considers and discusses the nature and materiality of all direct or indirect relationships between each director and the Company or its subsidiaries and affiliates, including any family, customer, supplier or service provider relationships. Relationships analysed by the Board for purposes of its 2004 relatedness analysis, include the following: • Richard Drouin's former relationship as counsel to a firm providing legal services to the Company. Mr. Drouin has ceased practicing with such firm as of December 2003 and he no longer receives any compensation from such firm; and • Marlene Davidge and David Ward's relationships as partners of firms providing legal services to the Company. After considering the nature of the services provided by the law firms (including, the amount of compensation received by the firms and the level of involvement of each director in the provision of the services), the Board has concluded that none of the current or former service provider relationships described above is material enough to interfere with the ability of any of Mr. Drouin, Mrs. Davidge or Mr. Ward to act in the Company's best interest.
4. Nominating Committee The board of directors of every corporation should appoint a committee of directors composed exclusively of outside, i.e., non-management, directors, a majority of whom are unrelated directors, with the responsibility for proposing new nominees to the board and for assessing directors on an ongoing basis. **Is the Company in alignment?** Yes	The Corporate Governance Committee is responsible for recommending nominees for directorships in consultation with the Chair and the Chief Executive Officer. The Corporate Governance Committee is currently composed entirely of outside and unrelated directors. The Committee also monitors the membership of the Board to ensure that qualifications under any applicable laws are maintained and situations of conflict of interest are avoided. The Committee establishes a list of desired traits and characteristics for directors annually to ensure that new nominees possess attributes that will complement the overall Board expertise and experience at any given time. The Board has adopted a written charter for the Corporate Governance Committee setting out its responsibilities, a copy of which may be found on the Company website at **www.abitibiconsolidated.com**.
5. Assessing the board's effectiveness Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors. **Is the Company in alignment?** Yes	Once a year, directors are required to provide to the Chair their views on: • the effectiveness of the Board; • the effectiveness of the committees of the Board; • the meaningfulness and timeliness of support information from management; • the performance of the Chair; • the performance of other directors. The aggregated results of the exercise are discussed by the Corporate Governance Committee, initially, and, thereafter by the Board. The Corporate Governance Committee may recommend changes to enhance the performance of the Board.

The TSX Guidelines	Governance practices at Abitibi-Consolidated
6. Orientation and education of directors Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board. **Is the Company in alignment?** Yes	The Company conducts a comprehensive orientation program for new directors, which includes orientation sessions with other board members and senior management, as well as the distribution of relevant materials on the Company and the industry. Management has also developed a continuing education program intended to broaden and deepen directors' competencies and experience. Past events included presentations from senior management on topics of particular relevance for the Company's business, other presentations by experts on subjects such as the economy and the markets and tours of the Company's productions and operations sites.
7. Effective board size Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making. **Is the Company in alignment?** Yes	The size of the Board is authorized by the articles of the Company to be between three and twenty-one. The Corporate Governance Committee is responsible for developing criteria governing the size and overall composition of the Board. The Committee periodically examines whether the Board is large enough to benefit from a wide variety of ideas and viewpoints without compromising the communication among the directors and between the directors and management. In 2003, the Board consisted of 11 members. This Management Proxy Circular proposes 10 nominees for election as directors at the Annual Meeting on April 29, 2004.
8. Compensation of directors The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director. **Is the Company in alignment?** Yes	The Corporate Governance Committee reviews the adequacy and form of compensation of directors annually. In so doing, the Committee examines both the nature and levels of compensation paid at comparable publicly traded companies. The results of the review are discussed at the Board, along with related recommendations of the Committee for Board approval. A more detailed description of the compensation of directors is provided in the Management Proxy Circular.
9. Committees and outside directors Committees of the board of directors should generally be composed of outside directors, a majority of whom are unrelated directors, although some board committees, such as the executive committee, may include one or more inside directors. **Is the Company in alignment?** Yes **NYSE STANDARDS** The NYSE standards require that the nominating/corporate governance committee and the compensation committee becomposed entirely of "independent" directors. The committees are also required to have written charters addressing certain listed matters.	All committees of the Board are currently composed of outside directors, all of whom are unrelated. The composition of the committees and attendance record of Directors can be found in the Management Proxy Circular. The proxy circular also indicates the attendance level of the directors. The charters of the committees can be found on the Company website at **www.abitibiconsolidated.com**. Each of the Corporate Governance Committee and the Human Resources and Compensation Committee are currently composed of independent directors. The charters of these committees comply with the content requirements of the NYSE standards.

The TSX Guidelines

10. Approach to corporate governance
General.
Every board of directors should expressly assume responsibility for, or assign to a committee of directors, responsibility for, developing the corporation's approach to corporate governance issues.

This committee would, amongst other things, be responsible for the corporation's response to these governance guidelines.

Is the Company in alignment?

Yes

Governance practices at Abitibi-Consolidated

As set out in its charter, the Corporate Governance Committee is responsible for all matters of corporate governance, including:

- developing with management a set of corporate governance principles for the Company;
- monitoring the Company's approach to corporate governance issues;
- evaluating its practices with regard to their conformity with the laws, regulations and listing requirements to which the Company is subject; and
- monitoring any disclosure documents related to corporate governance.

SARBANES ACT
Code of Conduct.
The rules promulgated under the Sarbanes Act require public companies to disclose whether they have adopted a "code of ethics" for the executive officers and its senior financial officers. A code of ethics must be designed to deter wrongdoing and to promote certain listed items.

The Company has adopted a code of conduct for senior management and directors meeting the requirements of the Sarbanes Act. The Company has also adopted a code of conduct for non-unionized employees. Both codes are published on the Company website at **www.abitibiconsolidated.com**.

The Company will provide any person, upon request to the Secretary of the Company, with a copy of the codes of conduct free of charge. No waivers were granted from the Company's codes of conduct in 2003. In December 2003, the Corporate Governance Committee approved some amendments to both codes of conduct pertaining to the reporting of concerns and complaints, as disclosed on the Company website at **www.abitibiconsolidated.com**.

NYSE STANDARDS
The NYSE Standards require U.S. listed companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

The Company also intends to disclose on its website any subsequent amendment to the codes of conduct or waiver thereof extended to a director or officer of the Company, as required by applicable securities legislation and stock exchange rules.

The Company's codes of conduct would comply with NYSE Standards, but for the fact that they do not currently apply to unionized employees. As a foreign private issuer on the NYSE, the Company does not have to comply with the NYSE's requirements relating to codes of conduct.

The TSX Guidelines	Governance practices at Abitibi-Consolidated
11. Position descriptions The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO, involving the definition of the limits to management's responsibilities. In addition, the board should approve or develop the corporate objectives which the CEO is responsible for meeting. **Is the Company in alignment?** Yes	Written charters are currently in place for the Board and all committees of the Board. The Corporate Governance Committee reviews the charters on a yearly basis. A position description for the Chair of the Board has been adopted by the Corporate Governance Committee. The Chair's principal responsibility is to oversee the efficient operation of the Board and its committees. The Human Resources and Compensation Committee has adopted a position description for the President and Chief Executive Officer. The involvement of the Board and the Human Resources and Compensation Committee regarding corporate objectives is discussed under item 1 (c) above. The Board expects management to be responsible for the effective, efficient and prudent management of the Company. The Board has put in place delegations of authority to define the limits of management's authority and responsibilities.
12. Board independence Every board should have in place appropriate structures and procedures to ensure that the board can function independently of management. An appropriate structure would be to: **a.** appoint a chair of the board who is not a member of management with responsibility to ensure that the board discharges its responsibilities; or **b.** adopt alternate means such as assigning this responsibility to a committee of the board or to a director, sometimes referred to as the "lead director". Appropriate procedures may involve the board meeting on a regular basis without management present or may involve expressly assigning the responsibility for administering the board's relationship to management to a committee of the board. **Is the Company in alignment?** Yes	The Chair of the Board, who is not a member of management, has the responsibility of ensuring the efficient operation of the Board and its committees. The Corporate Governance Committee is entrusted with making recommendations regarding the communication process between the Board and management, reviewing the structure of the Board and the committees on an annual basis, and monitoring the quality of information provided to the Board by management. As contemplated by its Charter, the Board holds in camera sessions without management at every regular meeting.
NYSE STANDARDS The NYSE Standards also contain a similar requirement that non-management directors meet at regularly scheduled executive sessions without management and requires a company to disclose a method for interested parties to communicate directly with non-management directors.	The Chair of the Board, Mr. Richard Drouin, presides over non-management directors' meetings. The Company's code of conduct for directors and management and the code of conduct for non-unionized employees provide a procedure for receiving, retaining and handling complaints concerning accounting, internal accounting controls and auditing matters, which complies with the rules promulgated under the Sarbanes Act. Any interested party may communicate with the Chair regarding any other concerns at the Company's corporate address: 1155 Metcalfe Street, Suite 800, Montreal, Quebec, H3B 5H2

The TSX Guidelines	Governance practices at Abitibi-Consolidated
13. Audit committee The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. The audit committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so. **Is the Company in alignment?** Yes	The Audit Committee is composed entirely of outside directors, all of whom are also "unrelated" directors. The Board has adopted a written charter for the Audit Committee that sets out the roles and responsibilities of the committee, which can be found on the Company website at **www.abitibiconsolidated.com**. The charter addresses all matters identified in TSX Guideline 13.
NYSE STANDARDS The NYSE Standards also contain certain rules pertaining to audit committees, including: **a.** requirements on independence (members must satisfy the independence criteria of the NYSE Standards (as discussed in item 2 above) and of Rule 10A-3 under the U.S. Securities Exchange Act of 1934); **b.** rules on financial literacy of members; **c.** matters to be addressed by the committee's charter; and **d.** the existence of an internal audit function.	The Company is in compliance with all audit committee requirements, except for requirements relating to the preparation of an audit committee report for inclusion in its annual proxy circular, as no report need be prepared by the Company as a foreign private issuer under U.S. law.
14. Outside advisers The board of directors should implement a system which enables an individual director to engage an outside advisor at the expense of the corporation in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the board. **Is the Company in alignment?** Yes	In accordance with its Charter, the Board, in discharging its duties and responsibilities in connection with any meeting of the Board or of any of the committees: • shall have access to the employees and management of the Company, • may invite officers, employees or any other person to attend meetings of the Board or of any committee of the Board to assist in the discussion and examination of the matters under consideration by the Board or such committee, and • may conduct such examinations, investigations or inquiries, and engage such special legal, accounting or other external advisors, at the expense of the Company, at such times and on such terms and conditions as the Board considers appropriate.

2003 Board of Directors

DONG KIL CHO

Mr. Cho is currently Chairman of the conglomerate Hansol Group. He joined Hansol Paper in 1986 as Manager, Corporate Planning, eventually becoming Chief Executive Officer from March 2001 to January 2002. He was also named Vice Chairman of Hansol Group in 1997, which led to his current role of Chairman, as of January 2002. Mr. Cho serves as Chairman of Korea Tennis Association and recently has been elected Chairman of Korea Paper Manufacturers Association. A Korean citizen, Mr. Cho is fluent in Japanese and English. He graduated from Phillips Academy in Andover, Massachusetts in 1974 and completed a B.A. in Economics from Yonsei University in Seoul, Korea.

MARLENE DAVIDGE

Mrs. Davidge is a Partner in the law firm Torys LLP. She obtained a bachelors degree from University of Toronto. After obtaining her law degree from Osgoode Hall Law School, she joined Torys LLP where she continues her practice today as a partner of the firm and a leading lawyer in mergers and acquisitions, corporate finance and investment funds. She has been a member of her firm's Executive Committee and is currently a member of the Advisory Committee of University College, University of Toronto.

WILLIAM E. DAVIS

Mr. Davis is currently President and Chief Executive Officer of the Metropolitain Development Foundation of Central New York. Prior to March 2003, he was Chairman of National Grid U.S.A., a holding company, and Chairman of Niagara Mohawk Holdings, Inc. Prior to February 2002, he was Chairman and Chief Executive Officer of Niagara Mohawk Holdings and Niagara Mohawk Power Corporation. Following his service as a U.S. Navy Officer from 1964-1973, he held various positions in the New York State Energy Office and the New York State Department of Commerce between 1974-1990. He is currently a member of the following Boards: Consol, Energy Inc., Syracuse University Board of Trustees and The Metropolitain Development Foundation of Central New York, Inc. Mr. Davis holds both a bachelor degree from the United States Naval Academy at Annapolis and a Masters from George Washington University.

RICHARD DROUIN

Mr. Drouin is currently Chairman of the Board of the Company. He is also Chairman of the North American Electric Reliability Council (NERC), which oversees the reliability of the Transmission Systems in North America, as well as Stelco Inc., Canadian Niagara Power and Transelec S.A. He was the Chairman and CEO of Hydro-Quebec from 1988 to 1996. He currently sits on the board of the following companies: American Superconductor Corporation (Boston), Acres International, Aéroports de Montréal, Gesca, President's Choice Financial and Provigo Inc. He is a Fellow of the Royal Canadian Geographical Society and Chairman of the Board of Trustees of l'Université Laval. Mr. Drouin is an Officer of the Order of Canada. In 1993, he was awarded an honorary degree from the Université Lumière in Lyon, France. He is an Honorary Consul for Great Britain in Québec.

JEAN GAULIN

Mr. Gaulin is currently a Corporate Director. He obtained a bachelor degree in chemical engineering and science in 1967 from l'École Polytechnique (Université de Montréal). Mr. Gaulin retired as Chairman, President and Chief Executive Officer of Ultramar Diamond Shamrock in January 2002 at the conclusion of the merger with Valero Energy Corporation. Mr. Gaulin currently serves on the following boards: Crane Co., National Bank of Canada, Groupe St-Hubert Inc., Saputo Inc.; Corporation de l'École Polytechnique; International Council of l'École des Hautes Études Commerciales; Board of Trustees and Executive Committee for United Way of San Antonio and Bexar County, and was involved with the Canadian Red Cross and the Heart Institute of Montréal.

LISE LACHAPELLE

Mrs. Lachapelle is currently a Corporate Director and a consultant. A native of Montréal, Mrs. Lachapelle holds a bachelor's degree in Business Administration from the University of Montréal (HEC). She also studied at the University of Western Ontario and the Harvard Business School. She was President and CEO of the Canadian Pulp and Paper Association from 1994 until January 2002. She is currently a member of the Board of Directors of Industrielle Alliance Inc., Russel Metals Inc., BNP-Paribas (Canada), Innergex Power Trust and Mirabaud Canada Inc. Mrs. Lachapelle also serves on the Board of l'École des Hautes Études Commerciales.

GARY J. LUKASSEN
Mr. Lukassen is currently a Corporate Director. After articling with Price Waterhouse in Montréal, he obtained his Chartered Accountant degree in 1967. He joined the Hudson's Bay Company (HBC) in 1975 and was appointed Senior Vice-President Financial and Administration in 1987 and Executive Vice-President and Chief Finance Officer in 1989. He was also a member of the Board of Directors of HBC from 1987 to 2001. Mr. Lukassen currently serves on the following boards: The North West Company and Stelco Inc.

C. EDWARD MEDLAND
Mr. Medland is currently President of Beauwood Investments Inc., a private investment company. He is also Chairman of the Board of Cadillac Fairview Corp. He was Chairman and CEO of Wood Gundy Inc. from 1972 to 1988. Mr. Medland is a graduate of the University of Toronto and holds the following directorships: Global Telecom Corp., MCM Split Share Corporation Premium Income Corp. and Financial World Split Corp. Mr. Medland is also a former Chairman of the Board of Investment Dealers' Association of Canada as well as the Ontario Teachers' Pension Plan.

JOHN A. TORY
Mr. Tory is currently President of Thomson Investments Limited, a holding company. Called to the Bar in 1954 and appointed Queen's Counsel in 1965, Mr. Tory serves as director of The Thomson Corporation, Rogers Communications, and the Canadian Psychiatric Research Foundation.

DAVID A. WARD
An international taxation lawyer and founding partner of Davies Ward Phillips & Vineberg LLP, a law firm with offices in Toronto, Montréal, New York, Beijing and Paris, Mr. Ward received a Bachelor of Commerce degree from Queen's University and a LL.B. from Osgoode Hall Law School and has practiced in commercial, tax and related fields of law since 1958.

JOHN W. WEAVER
With a Ph.D. from the Institute of Paper Science and Technology and nearly 30 years experience in this industry, Mr. Weaver applies his intricate knowledge to several industry boards, including serving as Chairman of The Forest Products Association of Canada in 2002 and 2003.

Corporate Officers

JOHN W. WEAVER
President and Chief Executive Officer

LOUIS-MARIE BOUCHARD
Senior Vice-President,
Woodlands & Sawmill Operations

ALAIN GRANDMONT
Senior Vice-President,
Value-Added Paper Operations

COLIN KEELER
Senior Vice-President,
North American Newsprint Sales

PAUL PLANET
Senior Vice-President,
International Sales & Operations

PIERRE ROUGEAU
Senior Vice-President, Corporate
Development and Chief Financial Officer

DAVID SCHIRMER
Senior Vice-President,
Value-Added Paper Sales

THOR THORSTEINSON
Senior Vice-President,
North American Newsprint Operations

BRUNO TREMBLAY
Senior Vice-President,
Technology Services

JACQUES P. VACHON
Senior Vice-President,
Corporate Affairs and Secretary

VIATEUR CAMIRE
Vice-President, Human Resources

ALLEN DEA
Vice-President and Treasurer

JOCELYN PEPIN
Vice-President and Corporate Controller

SYLVIE ROBITAILLE
Assistant Corporate Secretary

Glossary

ALTERNATIVE OFFSET®
High-brightness uncoated groundwood paper used for direct mail printing, catalogue inserts, technical manuals, financial printing and book printing.

BED FRAME
Precut wood components used in the assembly of box spring mattresses.

CAPACITY
Budgeted tonnes or lumber board feet produced per day multiplied by calendar days.

COATED PAPER
Grades of paper to which a coating is applied, either on the paper machine or a subsequent process.

COMMUNICATION PAPERS
A term used to describe those paper grades used by printers and publishers in their production of books, magazines, newspapers, etc.

DE-INKING
A process of re-pulping waste paper to remove inks and other non-fibre contaminants, producing clean fibre suitable for paper manufacturing (DIP).

DIRECTORY PAPERS
Lightweight uncoated groundwood papers used for telephone and other directories and catalogues.

EFFLUENT
The liquid waste of industrial processing.

EFFLUENT TREATMENT
Primary treatment: a process that removes suspended solids from effluent. Secondary treatment: a process that reduces the biochemical oxygen demand (BOD) and toxicity of effluent.

EQUAL OFFSET®
A very bright, surface-enhanced groundwood offset that delivers "equal" opacity, brightness and caliper with exceptional savings when compared to standard offsets.

FIBRE
The structural components of woody plants that are separated from each other during the pulping operation in a pulp mill and reassembled into the form of a sheet during the papermaking process. There are principally two types of fibre:

Virgin fibre: wood fibre derived from trees not previously processed into paper;

Recycled fibre: fibre derived from old magazines (OMP) and old newsprint (ONP) collected to make and strengthen recycled paper products.

FURRING STRIP
Small dimension lumber (1"x2", 1"x3", 1"x4" and 2"x2") used for siding or drywall support.

HECTARE
259 hectares equal 1 square mile, 1 hectare = 2.471 acres or .01 square kilometer.

HIGH-BRIGHTNESS PAPERS
Uncoated groundwood paper with a brightness level higher than standard newsprint.

I-JOIST
Engineered wood product (EWP) used mainly as floor joist in wooden construction composed of lumber or composite flanges and an oriented strandboard (OSB) web.

INTERNATIONAL
Refers to any geographical area outside North America when used in reference to our markets.

ISO
An international environmental management standard containing elements of an effective system. The elements are: policy, planning, implementation and operations, checking and corrective action, management review and continuous improvement.

LIMITS
Leased or owned forestlands (usually described in terms of square miles or hectares), from which the Company procures fibre for its sawmills and paper mills.

LWC (OR LIGHT-WEIGHTED COATED)
Clay-coated groundwood paper having a smooth finish and high opacity, used primarily for catalogues, magazines and inserts. A higher-value grade that competes in the same end-use market as SC papers.

MBF
Millions of board feet. (1 board foot = 12"x12"x1" thick).

MILL NET PRICE
Transaction price less delivery cost.

MLF
Million of linear feet.

MW
A megawatt equals one million watts of electrical power.

MWH
A megawatthour is a time-based unit of electrical consumption calculated in million watts per hour.

NEWSPRINT
A printing paper whose major use is in newspapers. It is made largely from groundwood or mechanical pulp reinforced to varying degrees by chemical pulp.

OPERATING EFFICIENCY

The ratio of actual saleable tonnes manufactured to the maximum possible tonnes.

OPERATING RATE

The ratio of actual days of machine operation to the days available.

PULP

A fibrous material produced by mechanically or chemically reducing woody plants into their component parts for the production of paper products. Pulp can result from a variety of processes including cooking, refining, grinding or the processing and cleaning of waste paper. Pulp can be either in a wet or dry state. Types of pulp include:

Chemical pulp: pulp obtained by cooking wood in solutions of various chemicals. The principal chemical processes are sulphite and sulphate;

CTMP: chemi-thermomechanical pulp, being pulp produced from wood chips using heated mechanical and chemical processes to break the bonds between the wood fibres;

Groundwood: pulp produced mechanically by grinding logs on a stone;

Kraft pulp: pulp produced by a process where the active cooking agent is a mixture of sodium hydroxide and sodium sulphide;

Recycled pulp: pulp produced from de-inking old newspapers and old magazines;

Sulphite pulp: an acid pulp produced from chips reduced to their component parts by cooking a pressurized vessel using an acidic liquor. Sulphite pulp can be produced using various techniques to increase yield of pulp per tonne of raw fibre, to produce high-yield sulphite pulp (HYS) and very high-yield sulphite pulp;

TMP: thermomechanical pulp produced through a chemical free process involving the mechanical refining of wood chips under high temperature and pressure.

PULPWOOD

Logs used for making pulp, as opposed to those used for lumber (saw logs).

ROTOGRAVURE PAPER

High smoothness uncoated groundwood paper, typically used for printing of catalogues and magazines. SC (supercalendered) paper – clay-filled groundwood paper (***ABI****CAL*™) having a smooth finish and high opacity, used primarily for catalogues, magazines and inserts. SCA is a higher-value grade than SCB, which is higher than SCC.

SOFT-NIP

A finishing process where the contact area between two rolls on a papermaking machine is used to make the paper smooth and glossy.

STUMPAGE FEE

Fee paid for harvested timber from public forests or privately owned forestland.

SUSTAINABLE FOREST MANAGEMENT

Managing and using the forest to meet the various needs of today's society, while maintaining the productive capacity of natural forest ecosystems and the biodiversity of the forest.

TONNE

1 metric tonne equals 1,000 kilograms corresponding to 1.1023 short tons (1 short ton equals 2,000 pounds).

TOTAL FREQUENCY OF ACCIDENTS

Number of accidents involving lost time or modified work multiplied by 200,000 divided by the number of hours worked.

UFS (OR UNCOATED FREE-SHEET)

Grades of paper made up of essentially all chemical pulp with no mechanical pulp and without any applied sheet-coating material. It is used for printing and writing purposes.

UNCOATED GROUNDWOOD

A higher value grade of paper which has properties similar to newsprint and is used in printing papers for directories, catalogues, advertising circulars, periodicals, etc.

VALUE-ADDED PAPERS

Quality uncoated paper that is a higher grade than newsprint, but lower than fine paper, in terms of brightness, surface smoothness and opacity. Made largely from groundwood or mechanical pulp and also contains varying proportions of chemical pulp and fillers.

WOOD CHIPS

Pieces of wood approximately 1" square by 1/8" thick resulting from the cutting of logs in chippers.

High/Low Share Price and Trading Volume

The common shares of Abitibi-Consolidated Inc. are listed on the Toronto Stock Exchange under the stock symbol "A". The common shares are also listed on the New York Stock Exchange under the symbol "ABY". The following information sets forth the high and low intraday prices and trading volume of the common shares on both exchanges for the periods indicated.

	TSX(1)			NYSE(2)		
	High ($CA)	Low ($CA)	Volume of shares	High ($US)	Low ($US)	Volume of shares
Fiscal 2003						
First Quarter	13.13	9.79	103,780,923	8.54	6.63	14,496,500
Second Quarter	11.09	8.46	158,418,960	7.49	6.25	19,657,700
Third Quarter	10.90	8.45	122,311,063	7.78	6.10	11,926,400
Fourth Quarter	10.38	8.22	149,607,556	8.11	6.31	10,884,700
Fiscal 2002						
First Quarter	15.04	11.45	124,720,225	9.50	7.16	14,824,100
Second Quarter	14.78	12.73	122,692,746	9.41	8.19	18,027,700
Third Quarter	14.40	9.77	91,460,096	9.63	6.14	15,621,500
Fourth Quarter	12.44	9.45	129,347,346	7.99	5.92	20,045,700
Fiscal 2001						
First Quarter	13.80	11.41	129,523,049	9.13	7.41	10,595,400
Second Quarter	14.20	11.18	151,708,320	9.21	7.40	11,730,700
Third Quarter	12.40	9.41	70,149,621	8.10	6.15	14,365,200
Fourth Quarter	12.39	9.51	118,651,218	7.88	6.06	14,480,000

(1) As reported by the Toronto Stock Exchange.
(2) As reported by the New York Stock Exchange.

FORWARD-LOOKING STATEMENTS

The Securities Litigation Reform Act of 1995 provides a "safe harbour" for forward-looking statements so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors which could cause actual results to differ materially from those projected in the statements. This annual report contains forward-looking statements about the Company, its future performance and operations, the industries in which it operates and management's expectations and assumptions and contains statements of the Company's belief, intentions and estimates about developments, results and events which may occur in the future, and are based on current expectations, estimates and analyses made by management derived from its experience and perceptions. However, actual outcomes may vary materially from those described as they are difficult to assess and subject to a number of risks and uncertainties, including the failure of the paper market to improve or to improve at the pace anticipated, continued net losses that may affect the Company's ability to satisfy its cash requirements, the inability to realize the expected benefits from the Company's strategic plan, the inability to secure sources of fund on reasonable terms, the credit ratings of the Company, the ability of the Company to compete effectively, the exposure to exchange rate fluctuations, existing or future litigation, costs and risks associated with post-retirement benefit obligations, general economic, market and business conditions, opportunities available to or pursued by the Company, changes in environmental and health and safety law or circumstances and other factors, many of which are beyond the control of the Company. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, changes in assumptions, future events or otherwise.

Annual General Meeting

The Annual Meeting of Abitibi-Consolidated Inc. shareholders will be held at Le Salon Windsor, 1170 Peel Street, Montréal, Québec, Canada, on Thursday, April 29, 2004 at 11:00 a.m.

TRANSFER AGENTS AND REGISTRARS

COMPUTERSHARE TRUST COMPANY OF CANADA
Halifax, Montréal, Toronto, Winnipeg, Calgary and Vancouver, Canada

COMPUTERSHARE TRUST COMPANY INC. (Computershare USA)
New York, United States

AUDITORS
PricewaterhouseCoopers LLP

INVESTOR CONTACTS
Lorne Gorber
Manager, Investor Relations

INFORMATION AVAILABLE UPON REQUEST:
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Investor Relations
1155 Metcalfe Street, Suite 800
Montréal, Québec H3B 5H2
CANADA
(514) 394-2317
ir@abitibiconsolidated.com

Abitibi-Consolidated makes copies of its annual report, annual information form, management proxy circular, interim reports, news releases, Board and Board committee charters, codes of conduct and the Company's corporate governance guidelines available via its web site, **www.abitibiconsolidated.com**.

ANNUAL INFORMATION FORM (form 40-F)
The Company's annual information form (AIF) is filed with securities regulators in Canada and the United States. Under the Multi-Jurisdictional Disclosure System (MJDS) introduced in 1991, the Company's AIF is filed in its Form 40-F with the U.S. regulatory authority, the Securities and Exchange Commission (SEC), in satisfaction of its annual filing requirement.

INTERIM REPORTS (form 6-K)
In 2004, the Company will electronically file each of its interim quarterly reports with regulatory authorities in Canada and with the SEC in the United States in Form 6-K. Quarterly reports, conference calls and quarterly financial statements will be archived at **www.abitibiconsolidated.com**.

Concept and Design
Graphème Branding & Design

Photography
Ronald Maisonneuve (pages 10, 12, 16, 19, 20, 25, 28, 30, 33)
Marcello Troche (pages 6, 7, 11, 14, 15, 18, 27)
Stock shots (pages 2, 3, 13, 23):
Getty Images (pages 2, 3, 13)
Masterfile (page 23)
Abitibi-Consolidated stock shots (pages 17, 22)

Printing and pre-press
Quebecor World Graphique-Couleur

This report is printed on Abitibi-Consolidated's *Equal Offset*® paper.

On peut obtenir le présent rapport annuel en français sur notre site Web à www.abitibiconsolidated.com ou sur demande.

March, 2004